

PANORAMIC

REAL ESTATE

United Arab Emirates

 LEXOLOGY



Real Estate

Contributing Editors

Craig Brown and Alex Rosenthal

Dechert LLP

Generated on: December 18, 2024

The information contained in this report is indicative only. Law Business Research is not responsible for any actions (or lack thereof) taken as a result of relying on or in any way using information contained in this report and in no event shall be liable for any damages resulting from reliance on or use of this information. Copyright 2006 - 2024 Law Business Research

Contents

Real Estate

GENERAL

- Legal system
- Land records
- Registration and recording
- Foreign owners and tenants
- Exchange control
- Legal liability
- Protection against liability
- Choice of law
- Jurisdiction
- Commercial versus residential property
- Planning and land use
- Government appropriation of real estate
- Forfeiture
- Bankruptcy and insolvency

INVESTMENT VEHICLES

- Investment entities
- Foreign investors
- Organisational formalities

ACQUISITIONS AND LEASES

- Ownership and occupancy
- Pre-contract
- Contract of sale
- Environmental clean-up
- Lease covenants and representation
- Leases and real estate security instruments
- Delivery of security deposits
- Due diligence
- Structural and environmental reviews
- Review of leases
- Other agreements
- Closing preparations
- Closing formalities
- Contract breach
- Breach of lease terms

FINANCING

- Secured lending

Leasehold financing
Form of security
Valuation
Legal requirements
Loan interest rates
Loan default and enforcement
Loan deficiency claims
Protection of collateral
Recourse
Cash management and reserves
Credit enhancements
Loan covenants
Financial covenants
Secured movable (personal) property
Single purpose entity (SPE)

UPDATE AND TRENDS

International and national regulation

Contributors

United Arab Emirates

[Afridi & Angell](#)

Afridi
&Angell

Shahram Safai

ssafai@afриди-angell.com

Rahat Dar

rdar@afриди-angell.com

Doneen Ennis

dennis@afриди-angell.com

GENERAL

Legal system

How would you explain your jurisdiction’s legal system to an investor?

The United Arab Emirates uses a civil law system. The Constitution of the United Arab Emirates sets out the main rules of the political, legal and constitutional organisation of the United Arab Emirates.

Article 1 of the Constitution provides that the United Arab Emirates is a federal, independent and sovereign state consisting of the emirates of Abu Dhabi, Dubai, Sharjah, Ajman, Umm Al Quwain, Fujairah and Ras Al Khaimah.

The Constitution is flexible and allows each emirate to exercise authority in certain matters.

Article 116 provides that the emirates shall exercise all powers not assigned to the federation by the Constitution.

Article 122 provides that the emirates shall have jurisdiction in all matters not assigned to the exclusive jurisdiction of the federation.

The emirates of Sharjah, Ajman, Fujairah and Umm Al Quwain follow the federal judicial system.

However, at the local level, the Abu Dhabi Judicial Department in Abu Dhabi, the Dubai Courts in Dubai, and the Ras Al Khaimah Courts in Ras Al Khaimah (the RAK Courts) maintain their own independent judicial departments and hold jurisdiction in matters that are not assigned to the Federal Judiciary in accordance with the Constitution.

In the Emirate of Dubai, two legal systems apply with respect to real estate. The first is the regime that is applicable to land comprising ‘onshore Dubai’. This is defined as all areas in the Emirate of Dubai excluding the free zone called the Dubai International Financial Centre (DIFC). The second is the regime applicable to the land comprising the DIFC.

Law stated - 21 November 2024

Land records

Does your jurisdiction have a system for registration or recording of ownership, leasehold and security interests in real estate? Must interests be registered or recorded?

In Dubai, all dispositions that create, transfer, change or extinguish real property rights, and all the final rulings validating these dispositions, must be registered (article 9 of Law 7 of 2006 (as amended by Law 7 of 2019)). In particular:

- a developer must register all dispositions of off-plan property in the Interim Register (*Oqood*), which is maintained by the Dubai Land Department (article 3 (1) of Law 13/2008, as amended by Law 9/2009, clarified by Decree 6/2010 and further amended by Law 19/2020);
- a disposition of a completed property must be registered in the Real Property Register, which is also maintained by the Dubai Land Department;

- a lease agreement must be registered with:
 - the Dubai Land Department if the lease is for a term of not less than 10 years and not more than 99 years (see Administrative Resolution 134 of 2013 and article 10 of Law 4/2019); or
 - on the *Ejari* system maintained by the Dubai Land Department, if the lease is for a term of fewer than 10 years; and
- all mortgages must be registered with the Dubai Land Department (article 7 of Law 14/2008).

Under the law, the relevant disposition shall not be deemed effective unless it is registered (article 9 of Law 7/2006 (as amended by Law 7 of 2019). See also article 3(1) of Law 13/2008, article 4 (2) of Law 33/2008 and article 7 of Law 14/2008. Therefore, a contract of sale, mortgage or lease is legally binding only if it is registered.

There is no state guarantee of title. The validity of information in the Property Register may be challenged on the grounds of fraud or forgery (article 7 of Law 7/2006). The Dubai Land Department can correct errors in the Property Register either at the request of a third party or on its own initiative (article 13 of Law 7/2006).

Law stated - 21 November 2024

Registration and recording

What are the legal requirements for registration or recording conveyances, leases and real estate security interests?

The registry in each emirate has its own rules governing how title is transferred. In Dubai, to register a transfer of title, the buyer and seller must both meet at a real estate registration trustee office in Dubai (such as Tamleek). At that meeting, several steps are completed, including the following:

- various original documents will be produced by the buyer and seller, including:
 - the title deed;
 - a no-objection certificate from the developer;
 - the mandatory Dubai Land Department Template Property Sales Contract between Buyer and Seller (Form F), which can and should be augmented (using a schedule, an attachment or incorporation by reference) by the parties entering into a separate sale and purchase contract or memorandum of understanding; and
 - the passport, visa or emirates identification of the seller and buyer (if an individual) or the corporate documents of the seller and buyer (if a company);
- the buyer and seller will sign the Dubai Land Department forms for the transfer of title;
- the buyer will pay the purchase price to the seller;
- the necessary payments will be made to the Dubai Land Department and the real estate registration trustee; and
- the Dubai Land Department will issue the buyer with a title deed for the property.

Registration cannot be completed by the parties electronically.

The registry in each emirate has its own rules governing the registration of lease agreements. As such, a lease must be concluded in writing to enable it to be registered and treated as valid under the law. In addition, in March 2017 the Dubai Land Department introduced mandatory unified *Ejari* tenancy contracts; leases based on templates that must be used in all leasing transactions required to be registered under the *Ejari* system by law that can be supplemented by additional terms and conditions, as required.

The registry in each emirate has its own rules governing the registration of mortgage agreements. In Dubai, the law requires that all mortgages be registered with the Dubai Land Department (article 7 of Law 14/2008).

Law stated - 21 November 2024

Foreign owners and tenants

What are the requirements for non-resident entities and individuals to own or lease real estate in your jurisdiction? What other factors should a foreign investor take into account in considering an investment in your jurisdiction?

There is no express prohibition in the Civil Code (Federal Law 5/1985) against foreign land ownership. However, each emirate can pass its own laws to regulate property ownership.

Under the onshore Dubai regime, the law and the current policy of the Dubai Land Department (DLD) provides as follows.

UAE nationals, Gulf Cooperation Council (GCC) nationals and companies fully owned by these individuals and public joint stock companies can own property anywhere in onshore Dubai (article 4 of Law 7/2006).

Non-UAE and non-GCC nationals can own only freehold, leasehold (up to 99 years) or usufruct (up to 99 years) in designated areas in onshore Dubai (Designated Areas), which are determined by the Ruler of the Emirate of Dubai by way of decrees and regulations issued from time to time. Some of the most popular of the Designated Areas are: the Palm Jumeriah, Downtown Dubai, Old Town, Burj Khalifa, Business Bay, Dubai Marina, Emirates Hills, Jumeirah Lakes Towers, Jumeirah Beach Residence, Zabeel first and Arabian Ranches (Regulation No. (3) of 2006 Determining Areas for Ownership by Non-UAE Nationals of Real Property in the Emirate of Dubai and its amendments (most recently updated by Resolution No. (6) of 2022)).

A foreign company can own only a freehold, leasehold (up to 99 years) or usufruct (up to 99 years) in the Designated Areas in onshore Dubai via establishing one of the following company vehicles in Dubai:

- a Jebel Ali Free Zone Authority Offshore Company;
- a Dubai Multi Commodities Centre company;
- a company incorporated in the Abu Dhabi Global Market free zone;
- a RAK International Corporate Centre offshore company;

- a DIFC company, partnership, foundation, real estate investment trust or real estate fund, subject to the approval of the DIFC Registrar of Companies (approval is given on a case-by-case basis); or
- an LLC..

Under the DIFC regime, all foreign nationals, foreign companies and GCC nationals have the right to acquire real estate anywhere in the DIFC without restriction on the type of legal vehicle used.

Generally, a separate special purpose vehicle (taking one of the forms described above) is used by foreign investors to purchase and develop a plot. These vehicles are primarily used because they ringfence liability to the specific special purpose vehicle.

Although Dubai is mainly a tax-free emirate, there are government restrictions on:

- foreign investment;
- areas where investment is permitted;
- corporate structures that can be used for investment; and
- licences required before investment can be made.

One entity can own a plot and also hold the development licence for the plot. The licence is deemed to include leasing rights. Alternatively, one entity can own the plot while another entity holds the licence. Various licences are available, and each has advantages and disadvantages. The decisive criteria are the plot's intended use and the applicant's nationality.

Real estate investment trusts (REITs) are not commonly used in the United Arab Emirates, as they are not permitted outside of the following frameworks:

- the Abu Dhabi Global Market (ADGM) REIT framework (the ADGM Fund Rules);
- the Dubai International Financial Centre's Investment Trust Law framework (the DIFC Investment Trust and REITs Rules Instrument); and
- the Emirates Securities and Commodities Authority's framework (Administrative Decision 6/R.T of 2019 Concerning Real Estate Investment Fund Controls).

However, on 22 July 2022, Dubai Decree No. 22/2022 came into force which approved a number of incentives that are to apply to property investment funds. It is hoped that these incentives will attract further investment in the Dubai real estate market. The privileges that are to be afforded to property investment funds are as follows:

- property investment funds will have the right to own property, or the right of usufruct or rental for a duration that does not exceed 99 years in areas where ownership is typically not allowed to UAE non-nationals in the specific areas identified by the newly established Committee of Property Investment Funds;
- the Decree explicitly states that no Dubai Land Department registration fees shall be imposed upon the property investment fund on the disposition of shares by the shareholders of the property investment fund. This, as noted above, was one of the main factors in discouraging investors from utilising property investment funds as a method for investment; and

- Dubai Land Department registration fees applied for property purchased by the property investment fund have been reduced from the standard 4 per cent of the market value of the property to 2 per cent. Similarly, the applicable fee to register a usufruct right or long-term lease has also been reduced to a fee of 2 per cent of the market value of the property.

Law stated - 21 November 2024

Exchange control

If a non-resident invests in a property in your jurisdiction, are there exchange control issues?

There are no exchange controls restricting payments to foreign lenders. The UAE dirham is fully convertible and there are no restrictions on the movement of funds (denominated in dirhams, US dollars or otherwise) into or out of the United Arab Emirates. The dirham is pegged to the US dollar.

Law stated - 21 November 2024

Legal liability

What types of liability does an owner or tenant of, or a lender on, real estate face? Is there a standard of strict liability and can there be liability to subsequent owners and tenants including foreclosing lenders? What about tort liability?

Obligations of a landlord

A landlord must repair any defect in the leased property that affects the lessee's use of the property. If the landlord fails to do so, the tenant may cancel the lease or obtain leave from the judge authorising it to repair and recover the costs from the landlord (article 767 of the Civil Code). In addition, in Dubai:

- the landlord must hand over the property to the tenant in a good condition (article 15 of Law 26/2007);
- unless the parties have agreed otherwise, the landlord is responsible for the property's maintenance works and for repairing any defect or damage that may affect the tenant's enjoyment of the property during the term of the lease (article 16 of Law 26/2007); and
- if the landlord breaches its obligations, the tenant can file a complaint with the Rental Disputes Settlement Centre, which has exclusive jurisdiction of the matter.

Obligations of the tenant

The leased property is regarded as being held in trust by the tenant and the tenant is liable for any diminution, damage or loss arising out of its default or wrongful act (article 776 of the Civil Code).

The tenant must exercise the care of a reasonable person in preserving the leased property (article 776 of the Civil Code).

In addition, in Dubai, on the expiry of the lease the tenant must return the property to the landlord in the condition that it was in at the beginning of the tenancy, subject to natural wear and tear (article 21 of Law 26/2007 and article 784 of the Civil Code). However, the Rental Disputes Settlement Centre, the judicial arm of the Dubai Land Department, recently considered what may be deducted from a security deposit and found that matters that fall to the landlord following the departure of a tenant may not be deducted from the security deposit. Should the tenant fail to comply with the terms of the agreement and/or the provisions provided for under the law, then the landlord should look to recover where possible directly from the tenant before using the security deposit.

There is no system of binding precedent in the United Arab Emirates.

Environmental obligations

Federal Law No. 24 of 1999 on the Protection and Development of the Environment governs environmental clean-ups. Under this law, any person who intentionally or by way of negligence causes damage to the environment or to others is responsible for all the costs for treatment or removal of the damage and may be imprisoned and fined.

Law stated - 21 November 2024

Protection against liability

How can owners protect themselves from liability and what types of insurance can they obtain?

Typically, a landlord will maintain property all-risk insurance, and in a commercial context the landlord will require the tenant to maintain certain types of insurance during the term of the lease, such as:

- business interruption insurance;
- comprehensive public liability insurance;
- workmen's compensation and employers' liability insurance;
- contractor's all-risk insurance; or
- product liability insurance (covering not only contents insurance but including any fixtures or fittings as may be added by the lessee).
- Typically for commercial leases lessees may also be required to get insurance to cover any damages or costs relating to the internal structure only which they are responsible for during the term of the lease; however, the lessor shall typically insure and cover the structural elements of the leased property (subject to the terms of the lease) ie, any outside structural element, such as roof space, and any internal or external communal space.

Law stated - 21 November 2024

Choice of law

How is the governing law of a transaction involving properties in two jurisdictions chosen? What are the conflict of laws rules in your jurisdiction? Are contractual choice of law provisions enforceable?

The laws of the United Arab Emirates prevail and govern over all matters concerning property located in the United Arab Emirates.

Law stated - 21 November 2024

Jurisdiction

Which courts or other tribunals have subject-matter jurisdiction over real estate disputes? Which parties must be joined to a claim before it can proceed? What is required for out-of-jurisdiction service? Must a party be qualified to do business in your jurisdiction to enforce remedies in your jurisdiction?

Pursuant to article 6 of Decree 26 of 2013 and Law 6 of 2019, the Rental Dispute Settlement Centre has exclusive jurisdiction over the following matters in Dubai:

- to determine all rent disputes that arise between landlords and tenants of property situated in the emirate of Dubai or in its free zones, including counterclaims arising therefrom, as well as to determine applications for interim or urgent relief filed by any of the parties to a lease contract;
- to determine appeals from the decisions and judgments that are subject to appeal in accordance with the provisions of this decree and the regulations and resolutions issued in pursuance thereof;
- to enforce the decisions and judgements issued by the Rental Dispute Settlement Centre; and
- to hear and determine all disputes and disagreements related to the rights and obligations stipulated in Law 6 of 2019 Concerning Ownership of Jointly Owned Real Property in the Emirate of Dubai.

Law stated - 21 November 2024

Commercial versus residential property

How do the laws in your jurisdiction regarding real estate ownership, tenancy and financing, or the enforcement of those interests in real estate, differ between commercial and residential properties?

The law applies equally to residential and commercial properties located in onshore Dubai. However, in onshore Dubai there has been discussion that a new rental law may be

introduced that will replace the current one-size-fits-all rental regulation. However, there are other practical requirements that somewhat differentiate commercial leases from residential leases; notably, the term must be for at least one year and the company must hold a business licence in line with its business activity. Under the DIFC regime, there are different rules that apply to the leasing of residential and commercial property, as set out in DIFC Leasing Law 1 of 2020.

Law stated - 21 November 2024

Planning and land use

How does your jurisdiction control or limit development, construction, or use of real estate or protect existing structures? Is there a planning process or zoning regime in place for real estate?

Each emirate imposes its own planning controls in relation to real estate in its area. In Dubai, the Dubai Municipality is the principal authority regulating planning controls in Dubai (with Local Orders such as 33/1988, 2/1999 and 8/2003, with recent updates including Executive Council Resolution No. (18) of 2021 Forming the Supreme Urban Planning Committee in the Emirate of Dubai, and Law No. 16 of 2023 Concerning Urban Planning in the Emirate of Dubai and the Dubai Urban Plan 2040).

Additional controls can be imposed by the Real Estate Regulatory Agency, the relevant free zone authority and the master developer, which are regulated by:

- Law 13/2008 (as amended);
- Law 8/2007;
- Law 6/2019;
- rules and regulations of the relevant free zone;
- master community declarations; and
- building management regulations (the document prepared in accordance with Law 6 of 2019 and to be entered in the Jointly Owned Real Property Register).

The master developer's standard sale contract will also contain provisions relating to planning control.

For projects being completed by Dubai World Group entities, an organisation called Trakhees (which forms part of the Ports, Customs and Free Zone Corporation) is responsible for all planning, health and safety and commercial licensing activities.

In Dubai, there are no formal procedures for third parties to object to a planning application. However, the planning authorities can review and amend the regulations of the classification and use of lands in Dubai if a third-party application is filed on serious and effective grounds that justify an amendment (article 8 of Local Order 2/1999). Further, the planning authority officials have full discretion to investigate as they deem appropriate (article 11 of Local Order 2/1999).

In Dubai, a violating party may be subject to one or more of the following penalties, as set out in article 28 of Local Order 2/1999:

- a fine not exceeding 50,000 dirhams;
- disconnection of all the utilities in the building or the site;
- suspension of the issuance of new building permits or renewal of any building permit; or
- suspension of the professional or commercial licence of the engineer or contractor on a temporary or permanent basis.

In addition, and further to setting controls and restrictions on development and construction, the Dubai government issued a new law, Law No. 16/2023 on Urban Planning in the Emirate of Dubai (2023 Law) outlining the following key objectives applicable to private development zones and free Zones, including the DIFC, and all individuals and public and private entities that carry out development work in the Emirate:

- establishing an integrated and effective urban planning system in a manner that encourages investment and sustainable development, achieves prosperity and improves the quality of life and living conditions, and the security and safety of society in the Emirate;
- governance of the urban planning sector, defining the competencies of the relevant authorities, achieving ways of cooperation, coordination and integration between them in relation to urban planning, and communicating data and information amongst them;
- enhancing the efficiency of preparing and implementing plans, strategies and policies related to urban planning;
- organising and following up urban planning works, and ensuring their alignment with approved plans, strategies and policies;
- preserving the environment in all its elements, biodiversity and natural resources in the Emirate for the benefit of present and future generations; and
- contributing to the establishment of the environmental impact assessment system and the strategic environmental assessment in the Emirate.

A supreme committee for urban planning shall also be established pursuant to the 2023 Law, which shall help set general policy for urban planning in Dubai and define urban development objectives within the framework of approved goals and strategies. This aims to further strengthen the controls and check and balances in place in Dubai around planning and environmental effects.

Law stated - 21 November 2024

Government appropriation of real estate

Does your jurisdiction have a legal regime for compulsory purchase or condemnation of real estate? Do owners, tenants and lenders receive compensation for a compulsory appropriation?

Local and federal authorities can acquire real estate compulsorily if it is necessary for the public's benefit and just compensation is paid (article 1135 of the Civil Code). In addition, each emirate can pass its own laws to regulate compensation.

There is no formal notice period for expropriation.

Pursuant to article 1135 of the Civil Code, when assessing compensation, consideration is given not only to the value of what is expropriated, but also to loss of profit and other damage that may result from the expropriation.

In Dubai, the Lands Valuation Committee (with the approval of the director general of Dubai Municipality) decides on applications for compensation for persons affected by expropriation (Resolution 2/2003).

In the case of road expansion, compensation will be in the form of:

- cash, if the Lands Valuation Committee determines that the value of the compensation is 200,000 dirhams or less; or
- additional land, if the Lands Valuation Committee determines that the value of the compensation should be more than 200,000 dirhams (see Dubai Local Order 1/2014).

Further, Law No. 2 of 2022 Concerning Acquisition of Real Estate Property for Public Benefit in the Emirate of Dubai, provides that any private ownership is protected and not prejudiced, save that should private property be required for public benefit then such owner shall in return receive fair compensation. Such law applies to all real property, including in any special development zones and free zones, including DIFC.

Law stated - 21 November 2024

Forfeiture

Are there any circumstances when real estate can be forfeited to or seized by the government for illegal activities or for any other legal reason without compensation?

The Civil Code governs forfeiture and seizure of real estate.

Law stated - 21 November 2024

Bankruptcy and insolvency

Briefly describe the bankruptcy and insolvency system in your jurisdiction.

No company rescue or reorganisation procedures are available onshore in the United Arab Emirates outside the insolvency regime under Federal Decree Law 9 of 2016, as amended (the Bankruptcy Law). Previously the insolvency regime under the Bankruptcy Law provided for preventative composition procedure (PCP), restructuring schemes and bankruptcy. The Bankruptcy Law previously provided for a two-step insolvency procedure of:

- a PCP, which can only be initiated by a debtor in financial distress, provided they meet certain requirements, such as not being more than 30 days past due on any payment obligation; and
- an alternative to the PCP is an application for bankruptcy, which can be initiated by:

- a debtor;
- a creditor(s), provided that the debt (single or in aggregate for the creditors) is 100,000 dirhams or more;
- the debtor's regulatory body;
- the court; or
- the public prosecutor.

Once a bankruptcy application was made, the court would appoint an expert to review the application and prepare a report (reviewing the debtor's debts, assets, financial prospects and the possibility of initiating a restructuring of the business and financial position of the debtor). Based on the court's examination expert's report, it would decide whether to reject the application, or proceed to bankruptcy or a restructuring scheme. If the court decided to proceed with a PCP or a restructuring scheme, then the court appointed a trustee to receive and examine the debt claims from the creditors and submit a draft PCP or restructuring scheme (as applicable) to the court. The draft scheme was required to contain details regarding (among other things) the possibility of the debtor's business to generate profits, and the terms and conditions relating to any settlement of the debtor's liabilities.

Once the draft scheme was approved by the court, it had to be submitted to the creditors. At least two-thirds of the unsecured creditors were required to approve the scheme or recommend amendments. If approved, the scheme would then be resubmitted to the court for final approval. If the scheme was a PCP scheme, then it should have been implemented within three years of receiving the final approval from the court; if it was a restructuring scheme, it should have been implemented within five years of receiving the final approval from the court. However, both the above implementation timeframes could be extended. In the event that the court approved the bankruptcy, the trustee would finalise the creditors debts and then liquidate the assets of the debtor, in order to repay the creditors (including preferential, secured and unsecured) in accordance with the Bankruptcy Law and the court's directions.

However, under the New Bankruptcy Law Federal Law Decree No. 51 of 2023 concerning Financial Restructuring and Bankruptcy (which took effect from 1 March 2024), preventative composition (PCP) will be replaced by preventative settlement, allowing for a more amicable approach to settling debts, such as rent, under a court-supervised process. The new law also allows for debtors, such as tenants, to have a moratorium period of up to three to six months should the tenants initiate the preventative settlement process, thus allowing the tenant time and space to negotiate a repayment plan with the landlord under the court's supervision. This new law further aligns the UAE with global provisions on bankruptcy while again making the UAE an attractive global investment destination.

Law stated - 21 November 2024

INVESTMENT VEHICLES

Investment entities

What legal forms can investment entities take in your jurisdiction? Which entities are not required to pay tax for transactions that pass through them

(pass-through entities) and what entities best shield ultimate owners from liability?

Generally, a separate special purpose limited liability vehicle is used to purchase and develop a plot. These vehicles are primarily used because they ringfence liability to the specific special purpose vehicle.

There are governmental restrictions on:

- foreign investment;
- areas where investment is permitted;
- corporate structures that can be used for investment; and
- licences required before investment can be made.

One entity can own a plot and also hold the plot's development licence. The licence is deemed to include leasing rights. Alternatively, one entity can own the plot while another entity holds the licence. Various licences are available and each has advantages and disadvantages. The decisive criteria are the plot's intended use and the applicant's nationality.

Real estate investment trusts (REITs) are not commonly used in the United Arab Emirates, as they are not permitted outside of the following frameworks:

- the Abu Dhabi Global Market (ADGM) REIT framework (the ADGM Fund Rules);
- the Dubai International Financial Centre Investment Trust Law framework (the DIFC Investment Trust and REITs Rules Instrument); and
- the Emirates Securities and Commodities Authority's framework (Administrative Decision 6/R.T of 2019 Concerning Real Estate Investment Fund Controls).

However, as noted above the privileges prescribed in Dubai Decree No. 22/2022 may increase the popularity of REITs as an investment vehicle.

The UAE recently issued Federal Decree-Law No.47 2022 as amended by Federal Decree-Law No.60 of 2023 (CT Laws) pursuant to which certain business activities and corporate entities are now subject to corporate tax.

Pursuant to the CT Laws, real estate investment income may be subject to corporate tax where such income derives from a licensed business or business activity and/or requires a licence from a licensing authority.

However, certain exemptions apply, and corporate tax does not apply in the following circumstances:

- Real estate investment income: where such income is received by a natural person, connected, either directly or indirectly, to the sale, lease, sub-lease, or rental of land or real estate property in the UAE.
- Where the profit or income relates to an individual person, in its own capacity, then the individual will not be subject to tax on its profit or gain from the sale of real estate.

Law stated - 21 November 2024

Foreign investors

What forms of entity do foreign investors customarily use in your jurisdiction?

Generally, a separate special purpose limited liability vehicle is used to purchase or develop land in the designated areas in Dubai. These vehicles are primarily used because they ringfence liability to the specific special purpose vehicle.

In Dubai, a special purpose vehicle must take the form of one of the following company vehicles:

- an offshore company registered in the Jebel Ali Free Zone (JAFZA offshore company);
- a Dubai Multi Commodities Centre (DMCC) company;
- a company incorporated in the Abu Dhabi Global Market's (ADGM) free zones;
- a Ras Al Khaimah (RAK) International Corporate Centre offshore company;
- a DIFC company, partnership, foundation, real estate investment trust or real estate fund (however, the formation of such entities is subject to approval by the DIFC Registrar of Companies, which is granted on a case-by-case basis); or
- a limited liability company.

These forms of entity are required to be used in accordance with the current policies of the Dubai Land Department.

Law stated - 21 November 2024

Organisational formalities

What are the organisational formalities for creating and maintaining the above entities? What requirements does your jurisdiction impose on a foreign entity? Does failure to comply incur monetary or other penalties? What are the tax consequences for a foreign investor in the use of any particular type of entity, and which type is most advantageous?

The most common form of investment entity for foreigners is a JAFZA offshore company. To incorporate a JAFZA offshore company, the following documents must be submitted to JAFZA:

- an application form for registration of the offshore company;
- a covering letter requesting JAFZA to incorporate the offshore company;
- a letter from the registered agent confirming that it agrees to act as the registered agent for the offshore company;
- the offshore company's memorandum and articles of association in the form required by JAFZA;
- in the case of a corporate (non-individual) shareholder (if the corporate shareholder is outside the United Arab Emirates):

- a certificate of registration or incorporation of the corporate shareholder (notarised and attested up to the level of a UAE embassy outside the United Arab Emirates);
- a memorandum of association and articles of association of the corporate shareholder (notarised and attested up to the level of a UAE embassy outside the United Arab Emirates); and
- a board resolution calling for the establishment of the offshore company as well as the authorisation of the individuals who will represent the applicant before JAFZA and sign on behalf of purposes of the incorporation;
- in the case of an individual shareholder:
 - a passport copy of the individual shareholder submitted to JAFZA;
 - a shareholders' resolution calling for the establishment of the offshore company as well as the authorisation of the individuals who will represent the applicant before JAFZA and sign on behalf of purposes of the incorporation;
 - specimen signatures of the manager and shareholder's appointed representatives; and
 - a copy of the manager's passport, and authorised signatories of the applicant, the secretary and the directors.

Typically, upon submission of the above-mentioned documents, the Registrar of Companies in JAFZA takes between 10 days and three weeks to register an offshore company. However, this is subject to the Criminal Investigations Department granting its approval within a reasonable time.

The time frames mentioned above are estimates. Further, the procedures, requirements and fees are also subject to change by JAFZA. It is not unusual for JAFZA to impose additional or different requirements based on its prevailing policies and guidelines or case by case basis, entirely at its discretion.

The ongoing formalities to maintain the JAFZA offshore company once registered are as follows:

- there must be a registered office at all times and it must be maintained by the offshore company in JAFZA or by the offshore company's registered agent in Dubai;
- there must be a registered agent at all times, either in JAFZA or in Dubai. The agent is subject to the approval of JAFZA and would need the approval of registration in the registry of registered agents that is handled by the Registrar of Companies in JAFZA; and
- payment of an annual licence renewal fee to JAFZA.

Dubai is no longer a tax free emirate following the issuance and implementation of the CT Law.

Prior to 1 June 2021, foreign or non-Gulf Cooperation Council national ownership of an onshore company in Dubai was restricted to 49 per cent, with the remaining 51 per cent required to be held by a UAE national. Since the enactment of Federal Decree Law No. 26 of 2020, this requirement is no longer in force; as such, international investors are now free to register their companies outside of free zones without splitting ownership with a UAE

national, in respect of most types of onshore companies. This development will no doubt have a significant impact on company organisations throughout the United Arab Emirates.

Pursuant to the CT Laws, even freezone companies which undertake a licensed business activity including but not limited to receiving real estate investment income may be subject to corporate tax where such income derives from a licensed business or business activity and/or requires a licence from licensing authority. Therefore, real estate investors, individuals (who undertake a licensed business activity) and companies now need to ensure they are registered with the federal tax authority and ensure that they comply with the necessary submission of accounts or, if available, apply for an exemption.

Law stated - 21 November 2024

ACQUISITIONS AND LEASES

Ownership and occupancy

Describe the various categories of legal ownership, leasehold or other occupancy interests in real estate customarily used and recognised in your jurisdiction.

The Civil Code (Federal Law 5/1985) provides for various types of tenure, including:

- freehold: the right to use, enjoy and occupy land or property permanently;
- *musataha*: the right to build on land for a specified duration not exceeding 50 years (the holder of a *musataha* right is deemed to own all buildings on the land during the specified term); and
- usufruct: the right to use, enjoy and occupy land or property belonging to another person for a fixed term not exceeding 99 years (usufruct is similar to the concept of 'leasehold' under English law).

In Dubai, land can also be gifted by the ruler of Dubai to a UAE national at no cost for commercial, industrial or residential purposes. Granted land is not freehold land and is subject to various restrictions. Land granted by the government of Dubai to UAE nationals cannot be disposed of without special permission from the ruler of Dubai or as permitted under Decree No. 4 of 2010.

In both Dubai and Abu Dhabi, a 'volumetric' subdivision of land and buildings into designated components is permitted (see article 8 of the Dubai Direction for General Regulation (2010) and article 61 of Abu Dhabi Law 3/2015).

In Dubai, all dispositions that create, transfer, change or extinguish real property rights and all the final rulings validating these dispositions, must be registered (article 9 of Law 7/2006 (as amended by Law 7 of 2019)).

Law stated - 21 November 2024

Pre-contract

What are the typical pre-contractual steps?

The buyer and seller normally sign a brief memorandum of understanding or a reservation form confirming the fundamental aspects of the deal. Generally, this memorandum of understanding or reservation form is binding on the parties pending the signing of a sale contract.

It is strongly advisable to carry out due diligence before entering into a binding sale contract. As a minimum, the buyer should:

- require the seller to provide it with a copy of the title certificate, which has been attested by the Dubai Land Department;
- carry out a property inspection; and
- insist on representations and warranties in the contract as to title and property defects.

It is also prudent for the buyer to obtain the seller's consent to its examination of the Property Register, as this is not open to the general public. However, this practice is uncommon.

With regard to off-plan units, the buyer should check that:

- the real estate project is registered with the Real Estate Regulatory Agency (RERA);
- there is an escrow account for the real estate project;
- the percentage of completion of the real estate project and the expected date of completion;
- the developer is registered with RERA;
- the developer owns the land or there is a development agreement between the owner and the developer; and
- the developer has the required permits and approvals from the Dubai Land Department and RERA to sell units off-plan in that particular real estate project.

Real estate brokers must be licensed in Dubai and Abu Dhabi, and comply with the relevant professional and ethical standards set out in Dubai By-law 85/2006 and Abu Dhabi Law 3/2015.

A seller or a property developer must appoint a broker by written agreement.

There is no cap on a broker's commission, but it normally ranges from 2 to 5 per cent of the purchase price.

All companies operating in Dubai and Abu Dhabi that wish to market real estate inside or outside the country must first obtain a permit from the Department of Municipal Affairs in the case of Abu Dhabi and through the Trakheesi system in the case of Dubai (see Real Estate Regulatory Agency Circular No. 11-2016 and Abu Dhabi Law 3/2015).

Law stated - 21 November 2024

Contract of sale

What are typical provisions in a contract of sale?

A sale contract typically covers the following:

- a description of the property;
- the purchase price;
- the settlement date;
- apportionment of costs and liabilities;
- termination;
- dispute resolution; and
- jurisdiction.

However, the mandatory Dubai Land Department template Property Sales Contract between Buyer and Seller (form F) must be used. It can, and should, be supplemented by additional terms and conditions.

In both Dubai and Abu Dhabi, off-plan property developers must make specific disclosures to the buyer about the property, including in relation to service charges (see article 4 of the Direction for General Regulation Concerning Jointly Owned Properties (2010) and article 15 of Abu Dhabi Law 3/2015).

The developer in Dubai is deemed to have warranted the information in the disclosure statement. If, within two years of the date of the original transfer of the unit, any of that information is found to be inaccurate, the developer will be liable to the buyer for damages (article 5 of the Direction for General Regulation Concerning Jointly Owned Properties (2010)).

Aside from this, there are no statutory (or other) duties of disclosure imposed on sellers. However, any misrepresentation by the seller can result in both civil and criminal liability.

The seller typically contractually warrants that, among other things:

- the title is unencumbered and mortgage-free;
- it has full authority to sell;
- there are no outstanding debts and the service charge is fully paid up; and
- the property and development obligations have been met.

Environmental warranties are uncommon in the United Arab Emirates.

In Dubai, an off-plan property developer is deemed to have given the warranties set out in article 40 of Law 6 of 2019 to the buyer.

The Civil Code also contains certain implied provisions in land sale contracts (see Book Two – Contracts, Chapter I – Contracts Conferring Ownership).

The imposition of value-added tax began in the United Arab Emirates on 1 January 2018 at a standard rate of 5 per cent. The VAT treatment of real estate depends on whether it is a commercial or residential property. Supplies (including sales or leases) of commercial properties will be taxable at the standard VAT rate of 5 per cent. The VAT must be paid by the beneficiary of the property. Supplies of residential properties will generally be exempt from VAT. To ensure that real estate developers can recover VAT on the construction of residential properties, the first supply of residential properties within three years of their completion will be zero-rated. All other residential property supplies will be exempt from VAT.

No stamp duty is payable on the sale or purchase of real estate.

Law stated - 21 November 2024

Environmental clean-up

Who takes responsibility for a future environmental clean-up? Are clauses regarding long-term environmental liability and indemnity that survive the term of a contract common? What are typical general covenants? What remedies do the seller and buyer have for breach?

Federal Law No. 24 of 1999 on the Protection and Development of the Environment governs environmental clean-ups in the United Arab Emirates. Under this law, any person who intentionally or through negligence causes damage to the environment or to others is responsible for all the costs of treatment or removal of such damage and may be imprisoned and fined.

Unless otherwise stipulated in the sale agreement, the buyer generally inherits liability for all matters relating to the property, which includes environmental liability.

However, environmental liability is not usually a consideration in the majority of real estate transactions in the United Arab Emirates.

Law stated - 21 November 2024

Lease covenants and representation

What are typical representations made by sellers of property regarding existing leases? What are typical covenants made by sellers of property concerning leases between contract date and closing date? Do they cover brokerage agreements and do they survive after property sale is completed? Are estoppel certificates from tenants customarily required as a condition to the obligation of the buyer to close under a contract of sale?

Unless otherwise stipulated in the sale agreement, the buyer generally inherits liability for all matters relating to the real estate, even if they occurred before the date of purchase. This includes obligations under a lease agreement.

The title transfer does not affect a tenant's rights under the lease.

If a seller has given a warranty in the sale contract as to the lease, then the seller remains liable for breaches of it. If the matter cannot be resolved amicably the buyer must follow the dispute resolution procedure provided for in the contract (which is likely to be litigation or arbitration).

Law stated - 21 November 2024

Leases and real estate security instruments

Is a lease generally subordinate to a security instrument pursuant to the provisions of the lease? What are the legal consequences of a lease being superior in priority to a security instrument upon foreclosure? Do lenders typically require subordination and non-disturbance agreements from tenants? Are ground (or head) leases treated differently from other commercial leases?

The registration of a mortgage does not affect a tenant's rights under the lease.

A lease is superior in priority to a mortgage upon foreclosure.

Lenders do not typically require subordination and non-disturbance agreements from tenants.

Law stated - 21 November 2024

Delivery of security deposits

What steps are taken to ensure delivery of tenant security deposits to a buyer? How common are security deposits under a lease? Do leases customarily have periodic rent resets or reviews?

To ensure delivery of tenant security deposits to the buyer at completion, a sale contract will typically provide the following:

- where a tenant has provided a security deposit to the seller by way of cash or a bank transfer, then the seller shall deliver to the buyer at completion a cheque in favour of the buyer for the amount of that cash security deposit; and
- where a tenant has provided a security deposit to the seller in the form of a post-dated cheque, the seller shall at completion:
 - deliver to the purchaser the original post-dated cheque endorsed in favour of the buyer by the seller; or
 - cancel and then obtain new post-dated cheques from the tenant in favour of the buyer if they cannot be endorsed.

Security deposits are common under leases. In Dubai, a landlord may only obtain a security deposit to ensure maintenance of the property and must refund the deposit or remainder thereof to the tenant on the expiry of the lease (article 20 of Law 26/2007). The Rental Disputes Centre, the judicial arm of Dubai Land Department, recently considered what may be deducted from a security deposit and found that:

Painting and cleaning of the interior walls completely after the tenant's departure from the leased property shall be a lessor's liability. The cost of these works cannot be deducted from the tenant's security deposit, nor should he be charged.

However, there is no system of binding precedent in the United Arab Emirates.

Rental increases under leases are subject to the following relevant regulations:

Generally, parties can include rent review provisions in the lease. However, Decree No. 43 of 2013 regulates rent increases in residential and commercial leases in Dubai. An increase in the rent of a real estate unit is subject to the following statutory limits:

- No increase, if the rent is less than 10 per cent of the average standard rent.
- 5 per cent, if the rent is less than 11 per cent to 20 per cent of the average standard rent.
- 10 per cent, if the rent is less than 21 per cent to 30 per cent of the average standard rent.
- 15 per cent, if the rent is less than 31 per cent to 40 per cent of the average standard rent.
- 20 per cent, if the rent is less than 41 per cent to 50 per cent of the average standard rent.

The government calculates the average standard rent for each neighbourhood based on rental statistics.

Under DIFC regulations, the Leasing Law No. 1 of 2020 applies to all residential, retail and commercial leases in the DIFC, except for a lease:

- of premises used primarily for serviced apartments or hotel inventory leased as part of a hotel;
- entered into by the parties to a mortgage of the leased premises, under the terms of the mortgage.

For residential leases, a landlord must give the tenant written notice of a proposed rent increase, at least 90 days before the expiry of the residential lease. If the landlord fails to give this notice, the rent increase is invalid (DIFC Leasing Law No. 1 of 2020).

Law stated - 21 November 2024

Due diligence

What due diligence should be conducted before executing a contract? Is any due diligence customarily permitted or conducted after contract but before closing? What is the typical method of title searches and are they customary? How and to what extent may acquirers protect themselves against bad title? Discuss the priority among the various interests in the estate. Is it customary to obtain government confirmation, a zoning report or legal opinion regarding legal use and occupancy?

It is strongly advisable to carry out due diligence before entering into a binding sale contract. As a minimum, the buyer should:

- require the seller to provide it with a copy of the title certificate, which the buyer should then verify online by using the [Dubai Land Department's Title Deed Verification Service](#);
- carry out a property inspection; and

- insist on representations and warranties in the contract as to title and property defects.

It is also prudent for the buyer to obtain the seller's consent to its examination of the Property Register, as this is not open to the general public. However, this practice is uncommon.

With regard to off-plan units, the buyer should check that:

- the real estate project is registered with RERA;
- there is an escrow account for the real estate project;
- the percentage of completion of the real estate project and the expected date of completion;
- the developer is registered with RERA;
- the developer owns the land or there is a development agreement between the owner and the developer; and
- the developer has the required permits and approvals from the Dubai Land Department and RERA to sell units off-plan in that particular real estate project.

Law stated - 21 November 2024

Structural and environmental reviews

Is it customary to arrange an engineering or environmental review? What are the typical requirements of such reviews? Is it customary to get representations or an indemnity? Is environmental insurance available?

Environmental liability is not usually a consideration in the majority of real estate transactions in the United Arab Emirates. Federal Law No. 24 of 1999 on the Protection and Development of the Environment governs environmental clean-up in the United Arab Emirates. Under this law, any person who intentionally or through negligence causes damage to the environment or to others is responsible for all the costs of treatment or removal of such damage and may be imprisoned and fined.

Depending on the value of the transaction an engineering review is undertaken. However, by law, an off-plan property developer must give the following warranties to the buyer (Law 6 of 2019):

- to repair and remedy any defects in the structural parts of the jointly owned real property for 10 years from the date of the completion certificate of the real property project developed by the developer; and
- to repair or replace defective installations in the jointly owned real property, including mechanical and electrical works, and sanitary and sewerage installations for one year from the date of handover of the unit to the owner.

Law stated - 21 November 2024

Review of leases

Do lawyers usually review leases or are they reviewed on the business side? What are the lease issues you point out to your clients?

Typically, leases are reviewed on the business side; however, lawyers may review to ensure the terms are in line with any updated local law, including but not limited to termination provisions.

Law stated - 21 November 2024

Other agreements

What other agreements does a lawyer customarily review?

These documents include but are not limited to:

- the title deed;
- the affection plan;
- a master community declaration and a jointly owned property declaration (now replaced by the building management regulation, pursuant to Law 6 of 2019 on the Ownership of Jointly Owned Real Property);
- any previous sale and purchase agreement which may have any ongoing obligations (especially in cases where the property being sold is still under construction and/or if there are post-handover payment instalments);
- a no-objection certificate from the developer authorising a sale; and
- if a company:
 - a trade licence of the seller or buyer;
 - articles of association of the seller or buyer;
 - the board resolution or power of attorney authorising the sale; and
 - certificate of good standing, certificate of incorporation or certificate of incumbency (if a free-zone company).

Law stated - 21 November 2024

Closing preparations

How does a lawyer customarily prepare for a closing of an acquisition, leasing or financing?

Various documents are reviewed and a 'dry run' of the transfer is often conducted with a real estate registration trustee (eg, Tamleek) if the transfer is of high value.

Further, since cheques are still used within the UAE to complete sales, lawyers should ensure they have checked and seen the necessary manager's cheques showing the purchase price in full.

Law stated - 21 November 2024

Closing formalities

Is the closing of the transfer, leasing or financing done in person with all parties present? Is it necessary for any agency or representative of the government or specially licensed agent to be in attendance to approve or verify and confirm the transaction?

After the buyer and seller have signed the sale contract and completed any necessary interim steps to the transfer of title (eg, paying any outstanding service charges and obtaining a no-objection certificate from the developer of the property), the buyer and seller must go in person to a real estate registration trustee (eg, Tamleek). There is no requirement for the sale contract to be notarised. At the meeting, several steps are completed, including:

- the buyer and seller sign the Dubai Land Department forms for the transfer of title;
- the buyer pays the purchase price to the seller;
- the necessary payments are made to the Dubai Land Department and the real estate registration trustee; and
- the Dubai Land Department issues the buyer with a title deed for the property.

Should a company be purchasing a property then ahead of any completed sale transfer the company must be registered with the DLD. This provides that the company has the right to purchase and hold property.

Law stated - 21 November 2024

Contract breach

What are the remedies for breach of a contract to sell or finance real estate?

If the matter cannot be resolved amicably, the buyer must follow the dispute resolution procedure provided for in the contract (which is likely to be litigation or arbitration).

Law stated - 21 November 2024

Breach of lease terms

What remedies are available to tenants and landlords for breach of the terms of the lease? Is there a customary procedure to evict a defaulting tenant and can a tenant claim damages from a landlord? Do general contract or special real estate rules apply? Are the remedies available to landlords different for commercial and residential leases?

In Dubai, if the landlord or tenant breaches its obligations, the relevant party must file a complaint with the Rental Dispute Settlement Centre (the judicial arm of the Dubai Land Department), which has exclusive jurisdiction to determine the matter and grant a remedy.

Each emirate has its own rules governing termination of the lease and the tenant's eviction. In Dubai, the landlord may seek eviction of the tenant before the expiry of the term of the

lease or on the expiry of the lease only in the specific circumstances as set out in article 25 of Law 33/2008.

Proceedings to terminate a lease and evict a tenant in Dubai must take place before the Rental Dispute Settlement Centre.

Law stated - 21 November 2024

FINANCING

Secured lending

Discuss the types of real estate security instruments available to lenders in your jurisdiction. Who are the typical providers of real estate financing in your country? Are there any restrictions on who may provide financing?

There are three common types of mortgage over real estate onshore in the United Arab Emirates:

- a mortgage over land and buildings;
- a leasehold interest in real property; or
- a building constructed on leased land.

It is possible to register a charge or mortgage over a leasehold interest in real property located in one of the free zones in the United Arab Emirates, depending on the rules and regulations of each free zone. It may also be necessary to register the charge or mortgage and the underlying lease with the real estate authority in the relevant emirate. Generally, the time of registration of the charge or mortgage determines priority among charge or mortgages over the same leasehold interest. Generally, a free zone mortgage or charge will only prevent the owner of the leasehold interest (ie, mortgagor) from transferring or further encumbering its leasehold interest and will not entitle the mortgagee to request the transfer of the leasehold interest. Transferring a leasehold interest would require a court order.

A 'mortgage' is defined in the Civil Code (Federal Law 5/1985, as amended) as a contract by which a creditor acquires the right to be satisfied from the proceeds of the sale of the mortgaged real estate in priority to unsecured creditors and other secured creditors of the debtor. To have effect, a mortgage must be registered. The time of registration of the mortgage determines priority among mortgages over the same real estate.

The mortgagor must be the owner of the mortgaged property. It is not essential that the mortgagor be the principal obligor of the debt that is secured by the mortgage; the mortgagor can be a guarantor of the debt.

As real estate can only be mortgaged to a company or a financial institution that has been duly licensed and registered by the Central Bank of the United Arab Emirates (see article 4 of Dubai Law No. 14 of 2008 (as amended) and Law 8 of 2018 and article 32 of Abu Dhabi Law No. 3 of 2015), financing is generally limited to these licensed banks and institutions or where these licensed banks and institutions are engaged as local security agents.

Financing can still be obtained from sources other than local licensed banks, such as real estate investment companies. However, this type of financing is normally based on a good

business relationship and trust between the parties, as the lender will not have registered security over real estate owned by the borrower.

Law stated - 21 November 2024

Leasehold financing

Is financing available for ground (or head) leases in your jurisdiction? How does the financing differ from financing for land ownership transactions?

Generally, ground leases are granted in connection with infrastructure projects, where the ground lease will be in the form of a *musataha* (a 50-year concession arrangement), a concession agreement (akin to a ground lease of up to 99 years), or a usufruct agreement. The landowner (often a governmental entity) will not permit a mortgage over the land. A lender's ability to secure its funding will depend on which of the above concession arrangements is given, and the rules and regulations of the land department in the relevant emirate. For example, in Dubai it is possible to register a mortgage over a building (which will be deemed to be separate from the land for this purpose) constructed on land granted under a *musataha*. However, some of the northern emirates do not recognise a building constructed on land granted under a *musataha* as being separate from the land. Therefore, it will not be possible to have a separate mortgage over such buildings.

As a leasehold can only be mortgaged to a company or a financial institution that has been duly licensed and registered by the Central Bank of the United Arab Emirates (see article 4 of Dubai Law No. 14 of 2008 (as amended), Law 8 of 2018, and article 32 of Abu Dhabi Law No. 3 of 2015), financing is generally limited to these licensed banks and institutions or where these licensed banks and institutions are engaged as local security agents.

Financing can still be obtained from sources other than local licensed banks, such as real estate investment companies. However, this type of financing is normally based on a good business relationship and trust between the parties, as the lender will not have registered security over the leasehold interest owned by the borrower.

Law stated - 21 November 2024

Form of security

What is the method of creating and perfecting a security interest in real estate?

A mortgage is the most common form of security granted over real estate located onshore in the United Arab Emirates. Mortgages over real property must be both in writing and registered with the appropriate real estate authority in each emirate. The registered mortgage deeds are generally pre-printed documents prescribed by the relevant authorities. In the case of registering a charge or mortgage over leasehold interest over real property located in a free zone, although the specific procedure and requirements will depend on the relevant free zone's rules and regulations, generally this will require:

- a number of approvals or no-objection certificates from the landlord, the mortgagee and the free zone authority;

- registration with the appropriate real estate authority in the emirate (if necessary);
- a charge or mortgage agreement (this may be based on the relevant free zone's approved format); and
- payment of a registration fee.

Law stated - 21 November 2024

Valuation

Are third-party real estate appraisals required by lenders for their underwriting of loans? Are there government or industry standards for appraisals? Must appraisers have specific qualifications or required government or industry certifications? Who is required to order the appraisal?

Third-party appraisals are generally required by lenders, particularly where the main security interest relates to real estate. It is also not uncommon for the lender to appoint its own experts to value the relevant property. It may also be necessary to have periodic appraisals to ensure that the borrower maintains the required financial covenants under the facility agreement (eg, loan-to-value or loan-to-security ratios).

In the case of the Emirate of Dubai, valuation companies must be licensed by the Real Estate Regulatory Agency in Dubai. The Dubai Land Department maintains a publicly available register of approved valuation companies on its website for no charge.

Law stated - 21 November 2024

Legal requirements

What would be the ramifications of a lender from another jurisdiction making a loan secured by collateral in your jurisdiction? What is the form of lien documents in your jurisdiction? What other issues would you note for your clients?

Real estate can only be mortgaged to a company or a financial institution that has been duly licensed and registered by the Central Bank of the United Arab Emirates (see article 4 of Dubai Law No. 14 of 2008 (as amended), Law 8 of 2018 (as amended) and article 32 of Abu Dhabi Law No. 3 of 2015). In practice, however, foreign lenders providing financing to UAE borrowers normally appoint a local security agent to hold the UAE-located security on their behalf. However, this can be a time-consuming and expensive exercise for a foreign lender, particularly as most local banks will only consider acting as local security agent in connection with financings where they are a part of the syndicate of lenders or if the foreign lender is from the Gulf Cooperation Council.

Law stated - 21 November 2024

Loan interest rates

How are interest rates on commercial and high-value property loans commonly set? What rate of interest is legally impermissible in your jurisdiction and what are the consequences if a loan exceeds the legally permissible rate?

Large (usually syndicated) financings are generally based on Loan Market Association documentation and will generally use a benchmark rate with reference to LIBOR (or EIBOR for UAE dirham facilities). We have not seen any significant use of the secured overnight financing rate (SOFR) yet. Instead, we note that the use of replacement benchmarks for the screen rate based on a designated, nominated or recommended replacement to the LIBOR screen rate identified by either the current administrator of the LIBOR screen rate or a nominating body, which can include any applicable central bank, regulator or other supervisory authority or a group of them, or any working group or committee sponsored or chaired by, or constituted at the request of, any of them.

According to article 76 of the Commercial Code, a creditor is entitled to receive interest on a commercial loan at the rate of interest stipulated in the contract. If this rate is not stated in the contract, it is calculated according to the current rate of interest in the market at the time of dealing, provided it does not exceed 12 per cent per annum.

The limitations for banks are that interest in excess of 12 per cent per annum, compound interest and interest in excess of principal are not enforced. However, these limitations are not usually followed by the Dubai courts, unlike other emirates.

Law stated - 21 November 2024

Loan default and enforcement

How are remedies against a debtor in default enforced in your jurisdiction? Is one action sufficient to realise all types of collateral? What is the time frame for foreclosure and in what circumstances can a lender bring a foreclosure proceeding? Are there restrictions on the types of legal actions that may be brought by lenders?

Each emirate has its own rules as to the enforcement of mortgages. In Dubai and Abu Dhabi, to enforce a mortgage the creditor must obtain a court order allowing it to sell the property through public auction (see article 26 of Dubai Law 14/2008 (as amended) and article 53 of Abu Dhabi Law 3/2015). The creditor cannot sell the mortgaged property by any other means.

The registration serial number allocated by the relevant registry determines the rank of a mortgage for liquidation purposes. If more than one mortgage registration application is submitted simultaneously for the same property, all mortgages will be allocated an identical registration number and the creditors rank equally (see article 1425 of the Civil Code, article 17 of Dubai Law 14/2008 (as amended) and article 45 of Abu Dhabi Law 3/2015).

Law stated - 21 November 2024

Loan deficiency claims

Are lenders entitled to recover a money judgment against the borrower or guarantor for any deficiency between the outstanding loan balance and the amount recovered in the foreclosure? Are there time limits on a lender seeking a deficiency judgment? Are there any limitations on the amount or method of calculation of the deficiency?

If the sale proceeds are insufficient to discharge the debt secured by the mortgage, the mortgagor remains liable for the remaining unpaid debt.

Personal and corporate guarantees are commonly used in the United Arab Emirates. Guarantees must be in writing and specify the amount secured by the guarantee.

Law stated - 21 November 2024

Protection of collateral

What actions can a lender take to protect its collateral until it has possession of the property?

In relation to real estate security interest, UAE law does not recognise the common law concept of 'self-help' for secured parties. In Dubai and Abu Dhabi, a mortgagee must obtain a court order allowing it to sell the property through public auction (see article 26 of Dubai Law 14/2008 and article 53 of Abu Dhabi Law 3/2015). A mortgagee cannot sell or deal with the mortgaged property by any other means.

Law stated - 21 November 2024

Recourse

May security documents provide for recourse to all of the assets of the borrower? Is recourse typically limited to the collateral and does that have significance in a bankruptcy or insolvency filing? Is personal recourse to guarantors limited to actions such as bankruptcy filing, sale of the mortgaged or hypothecated property or additional financing encumbering the mortgaged or hypothecated property or ownership interests in the borrower?

Recourse is typically limited to the specific collateral over which the security has been granted. In the United Arab Emirates, there is no general charge over all assets of a company and each type of security interest (eg, pledge over movables, mortgage over real property, accounts pledge, assignment of receivables, etc) must comply with its own legal requirements, including any applicable registrations. The concept of floating charge is not recognised in the United Arab Emirates. However, it may be possible to have a security interest over movable assets akin to a floating charge if the security interest can be registered in the EIRC security register in accordance with the provisions of Federal Law No. 4 of 2020 on Guaranteeing Rights Related to Movables (the Mortgage Law).

In the event of bankruptcy of the debtor, any assets that are subject to a valid security interest will be sold to satisfy the specific security obligation (less and costs associated with the sale of such asset). The court may (at its sole discretion) terminate any agreement to which the

debtor is a party (including any security agreement), provided this is in the best interests of the creditors as a whole. Generally, where a security interest is terminated the court may replace it with an alternative security interest of similar value. There is no guidance on how the court would determine the value of the terminated and replacement security interest.

Law stated - 21 November 2024

Cash management and reserves

Is it typical to require a cash management system and do lenders typically take reserves? For what purposes are reserves usually required?

Lock box banking is not typically required by lenders in the United Arab Emirates.

Law stated - 21 November 2024

Credit enhancements

What other types of credit enhancements are common? What about forms of guarantee?

Personal and corporate guarantees are commonly used in the United Arab Emirates. Guarantees must be in writing and specify the amount secured by the guarantee. In the case of guarantees for larger financings, it is not uncommon for the guarantors to maintain certain financial covenants (eg, minimum net worth).

Generally, you can call on a guarantee once the relevant conditions have been satisfied. Otherwise, a guarantee can be enforced through the court.

Law stated - 21 November 2024

Loan covenants

What covenants are commonly required by the lender in loan documents?

A borrower typically covenants to do the following:

- observe and perform all of his or her obligations under the mortgage, and not sell, lease, transfer or otherwise dispose of the mortgaged property;
- act on instructions given by the mortgagee and not remove the mortgage from registration;
- promptly provide to the mortgagee any information relating to the mortgaged property; and
- ensure that the mortgaged property is kept in good repair and condition.

Law stated - 21 November 2024

Financial covenants

What are typical financial covenants required by lenders?

Common financial covenant conditions are based on borrower or obligors' net worth, working capital, leverage, loan-to-value ratio, interest coverage and cash flow. They can also include restrictions on issuing debt, further encumbering assets, disposal or acquisition of substantial assets, paying dividends and investing, or impose actions such as the acceleration of debt payments if the specified condition is binding.

Law stated - 21 November 2024

Secured movable (personal) property

What are the requirements for creation and perfection of a security interest in movable (personal) property? Is a 'control' agreement necessary to perfect a security interest and, if so, what is required?

To have a valid pledge over movable assets under UAE law, the pledgee must have possession (actual or constructive) over the pledged assets. However, the Mortgage Law has updated the framework for registering security interest over movable assets located in the United Arab Emirates. The Mortgage Law provides for the registration of a security interest over a broad category of movable assets (this differs from a pledge, which requires a deed of possession and other existing forms of mortgages), including account pledges, assignment of receivables, etc, without the need to take possession (as required under the earlier UAE law). The security interest can be perfected through registration in an electronic security register (the Security Register).

Law stated - 21 November 2024

Single purpose entity (SPE)

Do lenders require that each borrower be an SPE? What are the requirements to create and maintain an SPE? Is there a concept of an independent director of SPEs and, if so, what is the purpose? If the independent director is in place to prevent a bankruptcy or insolvency filing, has the concept been upheld?

Other than in the case of non-recourse project financing or aircraft or vessel financing, it is not common for a lender to require a special purpose vehicle to be set up to hold certain of the borrower's assets and to take security over the shares of that special purpose vehicle. Rather, direct security over the assets is preferred.

Law stated - 21 November 2024

UPDATE AND TRENDS

International and national regulation

Are there any emerging trends, international regulatory schemes, national government or regulatory changes, or other hot topics in real estate regulation in your jurisdiction?

The ongoing crisis taking place in Ukraine has seen a substantial number of eastern European investors relocate to Dubai. As such, the Dubai Real Estate market has seen a marked increase in investment.

As noted above, the recent Dubai Decree No. 22/2022 and the privileges now afforded to approved property investment funds in Dubai are a significant progression development and an indication that property investment funds may now begin to have a greater impact on Dubai's real estate market.

Law stated - 21 November 2024