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A COMPARATIVE STUDY OF REAL ESTATE FINANCE USING ISLAMIC FINANCING INSTRUMENTS BASED ON THE CONCEPT OF INDEBTEDNESS IN PALESTINE

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Abstract

The study aims to investigate the real estate finance using Islamic financing instruments based on the concept of indebtedness in Palestine, and to examine the perceptions of customers on Murabahah and Ijarah Real- Estate financing in Palestine. In this research, comparisons were made between Real-Estate finance instruments based on the concept of indebtedness, which are Murabahah to the Purchase Ordered and Rent ended by ownership (Ijarah Muntahia bi al-Tamlik) regarding concept, method of pricing and debt-based financing. This study adopted three approaches, descriptive approach, comparison approach, and analytical approach to realize the objectives .To support the study's findings, a total of 130 employees working in Palestinian universities, who are clients of Islamic banks in Palestine, were selected as the sampling's design. Based on the overall findings of this study, the practice of Murabahah to the Purchase Ordered and Ijarah ended by ownership (Muntahia bi al-Tamlik) real-estate financing in Palestine proved that there is no significant difference in the context of pricing methods and debt-based financing between the two products. Although the concept of the two instruments showed a significant difference, the study encourages further research on equity financing as an alternative to debt-based financing in Palestine. More products should be introduced by Islamic banks in Palestine for real estate financing, such as Musharakah and Istisna'a to fulfill the Palestinian needs.
Key words: Real-Estate Finance; Islamic Instruments; indebtedness.

I. INTRODUCTION

For the majority of people, the purchase of a home is the single largest financial transaction of their lives, and since most people are not able to fund the price of a home with their own personal funds, a loan from either a conventional bank or an Islamic bank is normally required. Home financing is usually a large and long-term transaction. Few people today hold their financial wealth in cash, but still a minority of people has at its disposal large quantities of notes and cash stored in their homes, while a very small group of people usually keeps their wealth safe in the bank. Numerous people have wealth stored in the form of property, such as open land, plots ready for housing or in a constructed apartment.

The banking industry is an essential component to a country's financial system. In this respect, Islamic banks play a crucial role in gratifying the financial needs of Muslims trying to avoid interests (Riba). The growth of Islamic banking industry is indeed very encouraging. The average growth of Islamic banks is approximately 20% annum. This leads us to shed light on the difference between conventional and Islamic real estate finance. Firstly, under conventional financial systems, the interest charged is determined on the basis of demand and supply of the capital while under the Islamic financial system, the rent of the property is charged and determined through the demand and supply of real asset. Secondly, as conventional banks do not own the underlying asset, hence sharing the risk and reward of property is not required while Islamic financial system are the co-owner of the property and share risk and rewards attached with ownership. Thirdly, the return for conventional banks starts from the date of loan extension facility which is not the case in Islamic financial system. Under Diminishing Musharaka, the model return is due when the property is ready for use either through acquisition or through construction. Fourthly, conventional banks are not required to share any loss occurring to the underlying property while Islamic financial system, being, a co-owner, will share any damage occurring to the house. Fifthly, conventional banks will continuously receive the installments (containing interest & principal) even if the property is not useable and it needs some repair. During the repair period, Islamic financial system cannot receive the rent. Sixthly, the return of conventional banks is fixed as interest while Islamic financial system will receive rentals as well as share any appreciation (depreciation).

II. PURPOSE OF THE STUDY

The purpose of this paper is to investigate the real-estate financing using Islamic instruments based on the concept of indebtedness in Palestine, and to examine the perceptions of universities employees on Murabahah and Ijarah real-estate financing in Palestine.

III. SIGNIFICANCE OF THE STUDY

The importance of the study stems from the following main question: Is there a significant difference between real- estate finance instruments based on the concept of indebtedness, which are Murabahah to the Purchase Ordered and Ijarah Muntahia bi al-Tamlik from the perspective of universities employees.

IV. STUDY HYPOTHESIS

There are no statistical differences at ($\alpha = 0.05$) between real-estate finance instruments based on the concept of indebtedness, which are Murabahah to the Purchase Ordered and Ijarah Muntahia bi al-Tamlik(Rent ended by ownership) from the perspective of Universities employees(bank's customers) due to a number of variables (e.g., gender, marital state ,education level, place of residence, age and salary).

V. LITERATURE REVIEW

The concept of Mortgage loans was built upon the idea of interests (Riba), which is forbidden in Islam. Thus, to fulfill Muslims needs, Islamic banks have been successful in developing

alternative methods for attracting and utilizing funds in money making outlets, regardless of the fact that they are relatively recent in the field.
The first Islamic bank was established in Egypt in 1963. Nowadays, according to Global Financial Development Report, there are more than 500 Islamic banks in 60 countries, and around 330 Islamic windows in conventional banks providing Islamic products. The rapid growth of Islamic banks in the last decade is a reflection of the salient features of Islamic products (Vejzagic, 2014).

In Islamic finance, there is a variety of contracts that aim to regulate transactions among Muslims. The contracts in Islam represent its philosophical basis, Shariah principles, and a variety of transactions and dealings that addresses societal needs. Razak (Razak D. , 2011) concluded that Islamic contracts do not contain non-permissible elements in Shariah law, such as usury (Riba), uncertainty (Gharar), and speculation (Maisir). Over the last decade, Islamic financing institutions have been using three modes of real-estate financing. Razak (2011) considered the three different dimensions, which are sale based as Murabahah, Bai Bithaman Ajil and Istisnta'a (manufactured), lease based such as Ijarah, and equity based as Musharakah Mutanaqisah (Diminishing Partnership). In this regard, the Islamic banks in Palestine are using only two mechanisms in real -estate financing. These products are Murabahah to the Purchase Ordered, and Ijarah Muntahia bi al-Tamlik (IMBT):

- **Ijara:** Ijara is a form of leasing. It involves a contract where the bank buys and then leases an item to a customer for a specified rental over a specific period of time. The duration of the lease, as well as the basis for the rental, are set and agreed upon in advance. The Islamic bank retains the ownership of the item throughout the arrangement and assumes possession of the item at the end of the lease period. The other mechanism is to allow the lessee to agree, at the outset, to buy the assets in question at the end of the lease period, Ijara entails the existence of two parties to a contract: the leaser (owner of asset) and lessee (user of the asset), (Al-Mutairi, 2010).

- **Murabaha**: Murabaha is a contract for purchase and resale that allows the customer to make purchases without having to take out a loan and pay interest. For example, the Islamic bank purchases the goods for a customer, and re-sells them to the customer on a deferred basis, adding an agreed upon profit margin. The customer then pays the sale price for the goods over installments, effectively obtaining credit without paying interest. Examples of Murabaha include Housing Murabaha, Car Murabaha, Building Murabaha, and Furniture Murabaha.

- **Shehadeh (Shehadeh, 2011)** analyzed Murabahah as it is used in Palestine. The author listed a specific condition that should be met for Murabahah in order to be permissible according to Shariah Law. Shehadeh (2011), and Afaneh (Afaneh, 2009), found that the bulk of the credit facilities offered by Islamic banks in Palestine is based on Murabahah to the Purchase Ordered, According to Arab Islamic Bank and Palestinian Islamic Bank annual reports (2017), the revenue realized from Murabahah contracts are estimated at 74.4% of total revenues by Palestinian Islamic banks.

	Murabahah Revenues Million USD	Total Revenues Million USD	%
Palestine Islamic Bank	38.8	51.4	
Arab Islamic Bank	24.7	33.9	
Total revenue for the two banks	63.5	85.3	%74.4

Furthermore, Shehadeh, (2011), Afaneh, (2009), suggested providing more versatile financing models to meet the Palestinian needs. In further research, Zandi & Ariffin, (Zandi & Ariffin, 2012) investigated Murabahah in Iran and Malaysia. They found that there is much similarity between Murabahah and conventional loans. First: the profit rate in Murabahah is derived from LIBOR, which renders the mathematical operations similar to each other. Secondly: in case of delayed payment, customers charge a penalty that resembles conventional banks. This argument is supported by Kaleem,A.& Isa M., (Kaleem & Isa, 2003), which approve the similarity of Murabahah and conventional loans internationally in practical term.

However, Al-Hiti (ALHiti, 2008) described Murabahah as a unique contract that provides financial means for Islamic banks to compete with conventional banks. Hence. This model has fulfilled the needs of customers who do not wish to engage with the banks in partnership contracts. The study mentioned that Murabahah represents the bulk of the total investments in some Islamic banks, where Murabahah contributed to various sectors such as commercial, agricultural, industrial, and construction ones. Furthermore, the author emphasized the contribution of financing activities provided by Islamic banks in achieving high levels of social and economic developments.

The second real-estate financing alternatives in Palestine is Ijarah Muntahia bi al-Tamlik,(IMBT) Vejzagic,(2014),found that IMBT closely resembles Musharakah Mutanaqisah (Decreasing participant), where sales and lease are mixed due to the fact that the monthly rental is made up of the principle of financing. Moreover, IMBT is based on the binding promise from the customer to rent the house when the bank buys it. Hence, the promise is to protect the banks, where the underlying principle of Islamic finance is to share the loss and profits with its clients. Furthermore, if Islamic banks do not apply IMBT as they should, then IMBT will no longer be different from conventional products. Fatima,(Fatima, 2006) proved that there is no significant difference between IMBT and determined IMBT as one of the main products offered by Islamic banks in Palestine. This product targets low-income people with the intention of helping them own a home. IMBT enables customers to use the home while paying for its ownership. This assists them in getting rid of monthly rentals they pay without any benefits. Moreover, IMBT can be applied in various areas of the economy, such as commercial, agricultural, industrial, and construction sectors. Belkacem (Belkacem, 2008) found that IMBT has low risk for customers because the ownership of the asset lease remains with the bank, which eliminates the need for additional collateral. The study emphasized that IMBT has proved its importance as a competitive tool of financing in a different countries.

There are certain differences between Murabahah and Ijarah. Murabaha, as a sales contract, is governed by specific conditions related to the sale conditions of Islamic Law. The ownership is one of the most important conditions in the sale contract, where the seller (bank) should take a possession on the assets before selling it to the customer. Without this ownership, the sale will not be valid in the context of Islamic law. However, in Ijarah, contracting, the ownership on the assets is unnecessary, and the lease agreement is valid. In practice, the Islamic banks in Palestine in both contracts buy the house and take possession on it prior to selling or renting it. Furthermore, in practice, the duration of Murabahah and Ijarah differs. For Murabahah, the maximum contract duration is 10 years, while it is 15 years for Ijarah (Shehadeh, 2011). This is because in Ijarah, banks have the ownership of the house during the Ijarah period, which is regarded as collateral for the bank. Moreover, the Ijarah contract contains two different promises. The first one is on the part of the customer, and it is to rent the house after it is bought by the bank, while the second is on the part of the bank, and it is to transfer the ownership at the end of Ijarah period, and Murabahah extracts a promise from the customer to buy the house after it is bought by the bank.

Dusuki (Razak D. , 2011) mentioned that Islamic banks utilize similar methods of calculating the present and future values as conventional banks. This argument is supported by Meera and Razak (Meera & Razak, 2005), where they observed that the interest rates are replaced by the profit rates in Bai Bithaman Ajil (The deferred price). This implies that there are similarities between conventional interest rates and Islamic profit rates. In Palestine, the Islamic banks utilize LIBOR to determine their profit rate in Murabahah and rental rate for Ijarah, while also using the present value formula to compute the monthly installments or rental (Shehada, 2011)and (Afaneh, 2009). However, Murabahah is asset-based financing, where the Islamic bank sells the house to the customer, making the customer a debtor to the bank. The bank, in cases of Murabahah, transfer the liabilities and risks to the customer, which makes Murabahah similar to conventional loans, except for the fact that the underlying structure in Murabahah home finance is quite different. Moreover, the relationship between Islamic banks and customers is backed by the contract. In Murabahah, the bank is the seller while the customer is the buyer, which differs from conventional customer/bank relationship (Aziz, Pahlavi, & Gintzburger, 2009). Meanwhile, Ijarah is asset-backed financing, where the Islamic bank leases the house to the customer, and the customer becomes a debtor to the bank, but the ownership of the house will remain with the bank until the end of Ijarah's duration.

Thus, Ijarah is different from Murabahah due to the risk when the bank holds the ownership of the house during the Ijarah period. Additionally, the relationship between Islamic bank and its customer in Ijarah is that of a leaser and lessee, which differs from conventional loans and Murabahah (Aziz, Pahlavi, & Gintzburger, 2009). However, the relationship in he Ijarah contract is similar to conventional hire-purchase financing, where Ijarah is different from conventional hire purchase due to lacking a Riba element. The main differences between Islamic models and those in the conventional financial system are in the type of relationship between transaction parties and in the exclusion of financial interest (Riba) in the transactions. Mean while, the similarity between these two models is the achievement of similar economic objectives (Yousef, kamal, & kashoogie, 2009).

VI. DIFFERENCE BETWEEN CONVENTIONAL FINANCE AND ISLAMIC FINANCE

A contemporary commercial banking movement is based on the creditor debtor relationship between the borrower on the one hand and the bank on the other. Interest is viewed as the price of credit, reflecting the opening cost of money. The Islamic view about loans is that they should not give or take any benefit from the borrower. One must abstain from making a straight assessment between Islamic banking and conventional banking. This is because they are tremendously different in many ways. The key difference is that Islamic banking is based on Shari'ah organizations. Therefore, all business dealing, transactions, business move toward, product feature, investment focus, and responsibility are derived from the Shariah law, which leads to significant differences in many parts of the operations as well as to the conventional.

The foundation of the Islamic bank is based on the Islamic faith and must stay inside the limits of Islamic Law or the Shari'ah in all of its actions and performances. The original meaning of the Arabic word Shari'ah is 'the way to the source of life' and is now used to refer to a lawful system in keeping with the code of behavior called for by the Holy Qur'an. The governing principles of an Islamic bank are:

- The absence of interest-based (Riba) transactions.
- The avoidance of economic behavior between domination (zulm).
- The avoidance of economic activities involving conjecture (Gharar).
- The introduction of an Islamic tax, known as zakat.

On the other hand, conventional banking is basically based on the debtor creditor relationship between the depositors and the bank on one hand, and between the borrowers and the bank on the other. Interest is the same as the price of credit, reflecting the opportunity to pay the price of money.

Islamic law considers a loan to be given or taken, free of charge, to meet any possibility. Thus, in Islamic Banking, the creditor should not take advantage of the borrower.

The other principle pertaining to financial transactions in Islam is that there should not be any reward without taking a risk. This principle is applicable to both labour and capital. As no payment is allowed for labour, unless it is applied to work, there is no reward for capital unless it is exposed to business risk.

Thus, financial intermediation in an Islamic framework has been developed on the basis of the above-mentioned principles. Therefore, financial relationships in Islam have been participatory in nature.

The difference between conventional banks and Islamic banks virtually vanish, while both conventional and Islamic banks finance the same dealings and the development for the same customers. But the difference is in the concept. The key difference is that Islamic Banking is based on Shari'ah foundation. Thus, all dealing, transaction, business approach, product feature, investment focus, responsibility are derived from the Shari'ah law, which lead to the significant difference in many part of the operations with as of the conventional. On the other hand, conventional banking is essentially based on the debtor-creditor relationship between the depositors and the bank on one hand, and between the borrowers and the bank on the other. Interest is considered to be the price of credit, reflecting the opportunity cost of money (Al-Mutairi, Previous source, 2010).

VII. ISLAMIC BANKS IN PALESTINE

The Islamic banking experience in Palestine is regarded as young and limited. Banks began their work in Palestine after the establishment of the Palestinian Monetary Authority in 1995 and after the Paris Economic Convention was signed in 1993. This convention allowed the Palestinian Monetary Authority to issue licenses for the establishment of new banks. Prior to this date, there were no banks operating in Palestine, except Israeli banks (Miqdad & Hells, 2005). Currently, there are 15 banks operating in Palestine, three of them are Islamic banks and they are Palestine Islamic Bank, Arab Islamic Bank and Safa bank, with net assets estimated to be USD 2,179.0 Million representing 14% of the total assets of the Palestinian banking sector in the year 2017 (Annual, 2017) . The portion of Islamic banks in Palestine in the financial market is estimated to be 13 percent of the total market share, taking into account that the share of the global Islamic banking industry exceeded 25%, which means that there is a great opportunity for the Islamic banking industry in Palestine to maximize their market share as the experience is likely to improve the capability of these institutions to compete and to improve their performance. In this research, Safa Bank will be excluded from the study as it is newly established in September 2016.

Table (1)

Bank's name	Total Property rights($millions)			Branches & offices	Establishment
	2017	2016	growth%		
Arab Islamic bank	106.9	75.2	42%	24	1996
Palestine Islamic bank	109.6	95.3	15%	34	1997
Safa bank	70.3	72.8	-3%	3	2016

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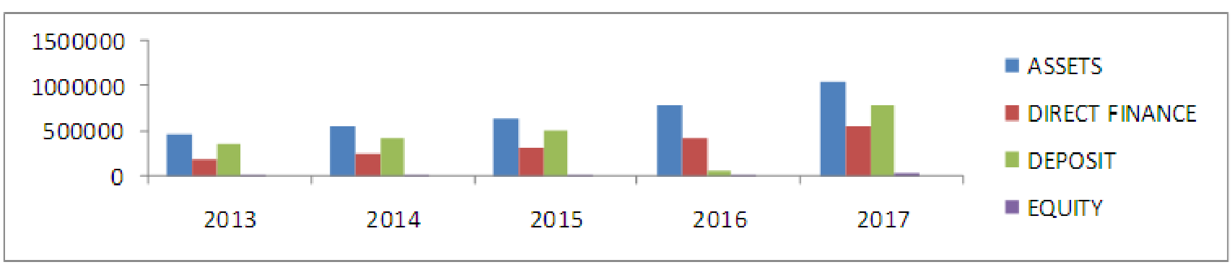
Arab Islamic bank

During 2017, the Arab Islamic Bank witnessed a growth of 121% in total assets, rising from USD 470 million in 2013 to USD 1,041 million in 2017, representing 6.7% of the total assets of the Palestinian banking sector. The Bank also witnessed a 112% growth in total deposits rising from USD 372 million in the year 2013 to reach US $ 791 million in 2017, accounting for 6.6% of the total banking sector deposits. The bank grew by 226% in total direct financing, increasing from USD 191 million in the year 2013 to USDS 561 million in 2017 and to constitute 7.1% of the total banking sector financing by the end of 2017. Also, the Arab Islamic Bank witnessed a growth of 71% in net equity from US 62.3 $ in 2013 to reach USD 106.9 million in the year 2017, representing 6% of the total equity of the Palestinian banking sector. The bank grew by 61% in total revenues, increasing from USD 16.7 million in the year 2013 to 26.9 million US dollars in 2017and to constitute 4% of the total revenues of the Palestinian banking sector by the end of 2017, And the bank's net profit rose from USD 3.5 million in the year 2013 to approximately $ 6.4 million in 2017 representing 3% of total net profit of the Palestinian banking sector . (Reoprt, 2017).

Table (2) Developments of the important items of the Arab Islamic Bank during 2013-2017 (million$)

Items	2013	2014	2015	2016	2017
Total Assets	470	562	651	794	1,041
Total Direct finance	191	247.7	310.8	431	561
Customer Deposits	372	435	520	624	791
Net equity	62.3	67.7	69.0	75.2	106.9
Total revenues	16.7	19.9	22.3	26.9	33.9
Net profit	3.5	4.1	5.2	6.2	6.4

source : Arab Islamic bank, annual reports,2013-2017



In view of Table (3) the development of the bank‘s Market share during the years 2013-2017 , the Arab Islamic Bank witnessed a growth in the total assets from 4.3% in the year 2013 to reach 6.8% of the Palestinian banking sector in 2017, also the Bank witnessed a growth in the Customers deposits from 4.2% in the year 2013 to reach 6.6% in the year 2017, And the bank's net direct financing rose from 4.3% in the year 2013 to 7.1% in 2017.

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Table (3): Developments of Market share indicators of the Arab Islamic Bank 2013-2017 (%)

Market share	2013	2014	2015	2016	2017
Total assets	4.3	4.9	5.3	5.8	6.8
Customers deposits	4.2	4.8	5.4	5.9	6.6
Net direct financing	4.3	5.1	5.4	6.4	7.1

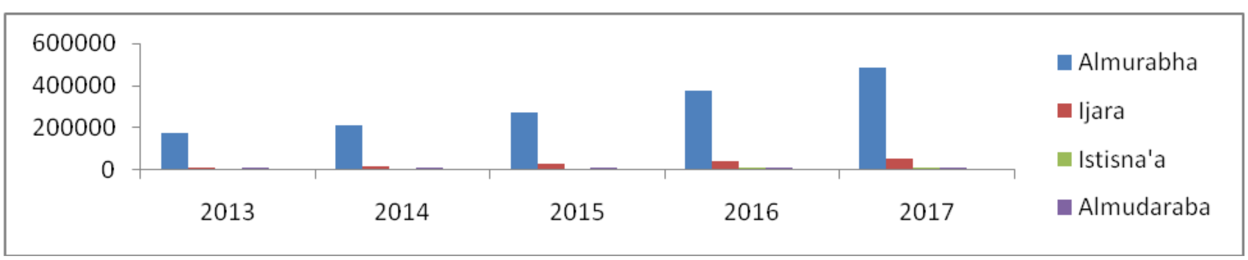
Source :Arab Islamic bank, annual reports,2013-2017

In light of Table (4) below, the distribution of direct financing according to the financing instruments used by the Arab Islamic Bank during the period 2013-2017, the Murabaha instrument of the purchase order achieved the highest value of financing compared to other financing instruments, which increased from 172.4 million dollars per year 2013 to 484.6 million dollars in 2017 and accounted for 86% of the total direct financing, followed by the tool Ijarah Muntahia Bittamleek, rising from $ 8.0 million in 2013 to $ 50.6 million in 2017. This is a clear indication that the bank relies primarily on the financing tools based on the concept of indebtedness in the granting of funds by focusing on the Murabaha instrument of the purchase order. The funds granted by the bank also increased as a result of the increase in deposits and by 151% during that period, from USD 191 million in the year 2013 to USD 561 million in 2017.

Table (4) Distribution of direct funds according to the use of the Arab Islamic Bank's financing tools during the period 2012- -2017 (million dollars)

Instruments tools	2013	2014	2015	2016	2017
Almurabha	172.4	219.3	271.5	372.9	484.6
Ijara	8.0	14.9	24.5	34.9	50.6
Istisna'a	2.5	2.8	3.4	10.3	10.2
Al mudaraba	7.9	7.6	7.9	6.9	7.8
Participation	-----	1.9	3.5	----	----
Total Direct Finance	191	247.7	310.8	431.0	561.0

Source: Arab Islamic bank, annual reports, 2013-2017



Palestine Islamic Bank

According to Table (5) below, the development of the most important items during the years 2013-2017 , the Palestine Islamic Bank witnessed a growth of 72% in net equity from USD 63.4 in the year 2013 to reach USD 109.6 million in the year 2017, representing 6.2% of the total equity of the Palestinian banking sector. The Bank's assets grew by 101% in the year 2017 from USD 502.2 million in the year 2013 to USD 1,010.3 million, representing 6.5% of the total assets of the

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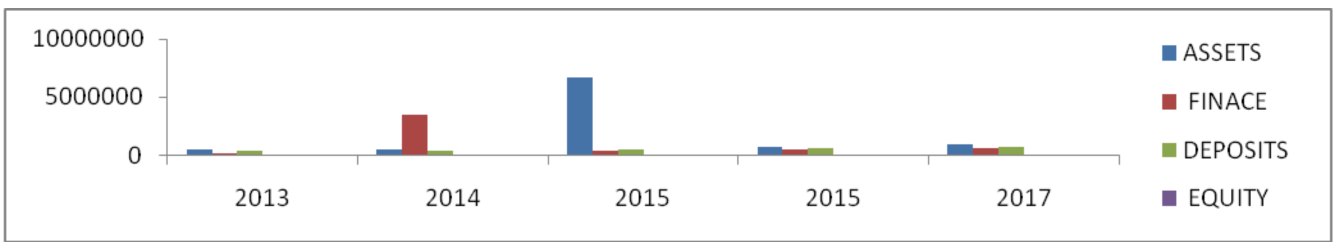
Palestinian banking sector, and customer deposits grew by101 % from US $ 401.5 in the 2013 to US $ 809.6 million in the year 2017,and accounted for 6.7 % of the total deposits of the Palestinian banking sector. The bank achieved direct financing growth of approximately 350.5 million dollars, a growth rate of 130%. The total direct financing increased from USD 268.8 million in the year 2013 to US $ 619.3 million in the year 2017 accounting for 7.8% of total credit granted in the Palestinian banking sector. The bank grew by 116% in total revenues, increasing from USD 23.7 million in the year 2013 to 51.4 million US dollars in 2017 and to constitute 7.5 % of the total revenues of the Palestinian banking sector by the end of 2017. And the bank's net profit rose from USD 6.5 million in the year 2013 to USD 14.5 million in the year 2017 representing 8.5% of total net profit of the Palestinian banking sector. (Annual, Report, 2017)

Table (5) Developments of the most important items of the Palestine Islamic Bank during the period 2013-2017 (million dollars)

Items	2013	2014	2015	2016	2017
Total Assets	502.2	595.2	675.2	809.0	1,010.3
Total Direct finance	268.8	352.9	446.3	539.9	619.3
Customer Deposits	401.5	455.9	536.7	651.7	809.6
Net equity	63.4	67.6	73.3	95.3	109.6
Total revenues	23.7	28.7	35.6	46.4	51.4
Net profit	6.5	7.5	10.0	12.6	14.5

Source: Palestine Islamic Bank, annual reports, 2013-2017



In light of Table (6) below, the development of the bank‘s Market share during the years 2013-2017, the Palestine Islamic Bank witnessed a growth in the total assets from 4.7% in 2013 to reach 6.6% of the Palestinian banking sector in 2017. Also the bank witnessed a growth in the Customers deposits from 4.9% in the year 2013 to reach 6.8% in the year 2017, and the bank's net direct financing rose from 6.1% in the year 2013 to 7.8% in 2017.

Table (6) :Developments of the Market share indicators of the Palestine Islamic Bank during the period 2013-2017 (%)

Market share	2013	2014	2015	2016	2017
Total assets	4.7	5.2	5.5	5.9	6.6
Customers deposits	4.9	5.1	5.6	6.2	6.8
Net direct financing	6.1	7.3	7.8	8.0	7.8

Source :Palestine Islamic bank, annual reports, 2013- 2017

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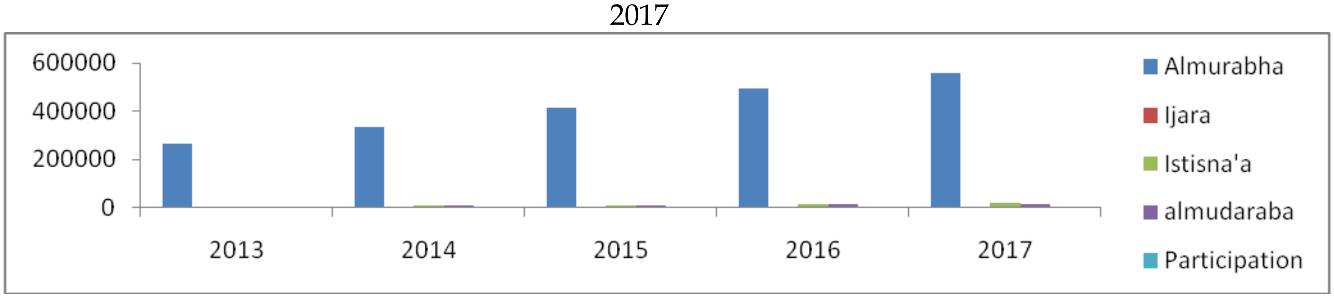
In light of Table (7) below, the distribution of direct financing according to the financing instruments used by the Palestine Islamic Bank during the period 2013-2017, the Murabaha instrument of the purchase order reached the highest value of financing compared to other financing instruments, which increased from 263.6 million dollars per year 2013 to 559 million dollars in 2017 and accounted for 90% of the total direct financing, followed by the tool Ijarah Muntahia Bittamleek, decreased from $ 5.9 million in 2013 to $ 3.7 million in 2017. On the other hand, financing by Istisna'a increased from 5.6 million in 2014 to 10.5 million in the year 2017. Also financing by Mudaraba increased from 4.0 million in 2014 to 14.6 million in 2017 respectively. This is a clear indication that the bank depends primarily on the financing tools based on the concept of indebtedness in the granting of funds by focusing on the Murabaha instrument of the purchase order. The funds granted by the bank also increased as a result of the increase in deposits and by 151% during that period, from $ 268.8 million to $ 619.3 million in 2017.

Table (7): Distribution of Direct financing according to the financing instruments used by the Palestine Islamic Bank during the period 2013-2017 (million Dollars)

Instruments tools	2013	2014	2015	2016	2017
Almurabha	263.6	333.7	412.3	494.4	559.0
Ijara ended by ownership	5.9	5.3	4.9	4.5	3.7
Istisna'a	0.48	4.0	5.8	8.9	14.6
almudaraba	------	5.6	7.2	8.4	10.5
Participation	----	1.6	2.3	1.7	1.5
Total finance	268.8	352.9	446.3	539.9	619.3

Source :Palestine Islamic Bank, annual reports, 2013-2017



In light of this, the Islamic banks in Palestine offer a few range of products based on a short-term financing due to the lack of experience and high risks associated with long-term financing and political and economic instability. Nowadays, the Islamic banking industry in Palestine has evolved to include a wider range of products as well as longer terms, such as Murabahah to the Purchase Ordered, Ijarah Muntahia bi al- Tamlik, Istisna, Musharakah and Mudarabah. Due to the development of Islamic finance and the growth in the demand and importance of real estate, especially in Palestine, Islamic banks introduced a long term financing model for real estate based on mortgage.

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Throughout the years, Murabahah was widely practiced in Islamic banks around the world, and is considered the main product of Islamic finance. Recently, Murabahah has been used as an Islamic alternative to conventional loans for home finance. However, the second alternative available for home finance in Palestine is Ijarah Muntahia bi al-Tamlik (IMBT), which is a lease contract ending with transfer the legal title of the leased asset to the lessee.

Despite the fact that Murabahah and Ijarah are regarded as an Islamic alternatives to conventional snaol, their concept is still debt-based financing. In summary, the mortgage scheme in Palestine is limited compared to other financing programs due to several reasons. First, Islamic banks are reluctant to expand the mortgage duration due to the uncertainty in the economic and political situations. Second, the mortgage is expensive as the cost cannot be borne by the consumers. Despite these factors, there seems to be a chance for Islamic banks in Palestine to develop and expand mortgages to achieve social and economic objectives, Based on this background, the next section discusses the literature review followed by the methodology of the study. Section three lays out the results and analysis. Finally, conclusions of the paper are presented.

VIII. METHODOLOGY

In this study, the research design adopted is the quantitative method. According to Creswell, (Creswell, 2003), the quantitative method is used for verifying the variables in question or predetermined hypotheses. Furthermore, the quantitative analysis can refuse or confirm hypotheses based on the results got by using statistical methods. This method is suitable for this research since it tests a hypothesis regarding the Islamic real estate financing alternatives in Palestine based on the clients' preference.

This study adopted the triangulation methodology to realize the objectives of this study. Firstly, the descriptive approach was used to describe the Islamic banking industry in Palestine and the concept of Murabahah and Ijarah as a model of real- estate financing. Second, the comparison approach was used to compare the Islamic real-estate financing alternatives in Palestine in terms the concept, method of pricing, and debt-based financing. Finally, analytical approach was used to analyze customers' preferences and the awareness of Islamic products for real estate financing in Palestine.

The selected type of research instruments depends on the type of information needed to be discovered. According to Sekaran (Sekaran, 2006), there are different methods for data collection. The most popular way is via questionnaires, which can be collected either personally or via technology. In this study, a self-administered, mail and electronically administered questionnaire was used to collect data. A simple random sample technique (Sekaran, 2006) was used in this research. The reason for using simple random rather than other sample techniques is the shortage of human capital constrain, time and money sources. Thus, the simple random sample targeted university employees, who are clients of Islamic banks, were selected as the sampling's design. Many studies, Razak (Razak D. , Previous source, 2011), Dusuki & Abozaid, (Dusuki & Abozaid, 2007), considered using employees as a study as valid for the study and leading to accurate results. The employees working in Palestinian universities, who are clients of Islamic banks, are a suitable sample for this research because they are already educated and already current customers, which means that they are potential users of the Islamic products. Furthermore, it was not possible to use other respondents such as banks' customers because of the restriction by banks' polices' disallowing the disclosure of their customers' personal information due to the secrecy prescribed in the Palestinian Monetary Authority(PMA) .

In addition, it is important to determine the required number of sample size. According to Coolican, (Coolican, 1990), the sample size between thirty to five hundred respondents is appropriate for most research and studies. However, in this research, a total sample size of 130 respondents was targeted in this study. Out of 160 distributed questionnaires, only 130 were completed and were valid for analysis. After obtaining the quantitative data from the survey questionnaires, the statistical treatment of the data was conducted using the Statistical Software Packages SPSS, and data screening was used to check the normality and the clearance of the data. Descriptive statistics was run to determine numbers, percentages, means and standard deviations for questionnaire items. Furthermore, data validation was carried out to check the data validity for analysis. In this study, several steps had to be taken by the researcher to ensure that the data is valid. First, the study excluded the uncompleted questionnaires from the analysis. Second, the questionnaires were designed based on the closed questions method (Razak D. , 2011). Furthermore, the reliability analysis and the test of consistency of the study tool were conducted. The reliability analysis was carried out using Cronbach's Alpha. The data showed a good degree of reliability 0.735.

In this research, comparisons were made between the debt alternatives of real estate financing, which are Murabahah to the Purchase Ordered and Ijarah Muntahia bi al-Tamlik regarding concept, method of pricing and debt based financing. In this regard, three hypotheses were tested using Paired T-test. The paired T-test is commonly used to compare a sample group's scores before and after an intervention. In this study, the paired T-test was used to compare between Murabahah and Ijarah. In this study Paired T-test was used since the study required the responses of two different products for the same sample. This followed Razak (2011) method where he discussed the difference in customer's perspective on diminishing partnership and Bai' Bithaman Ajil as home financing products.

IX. RESULTS AND ANALYSIS

This paragraph reveals the demographic information of the respondents, gender, marital state, educational level , place of residents, age and salary. Male respondents comprise 71% whereas female respondents comprise 29 %. As for marital status, 33% of the respondents were single, followed by 67% married. The majority of the respondents (73%) are aged between 30 to 45 years. According to Metawa & Almossawi, (Metawa & Almossawi, 1998), investigation, the perception and behavior of customers and depositors within this age group is likely to have far reaching influence on the Islamic banking policies. In terms of the education level, the result indicates 39% of the respondents are Ph.D. holders, followed by 43% of Master Degree holders. The result also indicates that 18% of respondents are Bachelor Degree holders. The combined respondents, together, earning below $2000 comprises 61%, indicating that the majority of the respondents are middle income earners. The distribution of respondents by place of residence indicated that the majority of come from small cities, which accounts for 67%, followed by 33 % coming from big cities.

Following the demographic profiling of the respondents, a descriptive analysis was carried out. This section represents the respondents' preferences about their intention to buy a real-estate in the future and what type of real estate they like to buy. It also measures the respondents' preferences of what type of Islamic real estate financing facility in Palestine they preferred. Regarding customer's tendency to buy a real estate, 71 % of the respondents have an intention to buy a real estate in the future, which is considered as a large proportion and a suitable sample of the study because these respondents are considered as potential clients in real estate financing programs. The reason for this is that the majority of respondents are currently tenants. Regarding customers' preference of the type of Islamic financing facility, 68% of the respondents preferred Ijarah Muntahia bi al-Tamlik rather than Murabahah. This high rate for IMBT reflects the customers' tendency is to have an alternative for real estate financing rather than Murabahah because the same reason, as mentioned above, that the majority of respondents are currently tenants, and this method of financing is the most appropriate for them in the ownership of real estate instead of paying rent without ownership. Regarding customers' preference of the real estate type they prefer, the respondents showed high tendencies toward having a separate house in a residential compound (66%), where 28% preferred medium apartment and 6% preferred to live in a small separate house. This reflects the lifestyle in the Palestinian universities where the majority of universities' staff have a desire for an independent house within a residential compound , since these gatherings are cheaper than a separate house .

In conclusion, the descriptive data showed interesting points regarding Islamic banks in Palestine. The majority of respondents have a tendency to buy a home where 80% of them are from the middle income slice which is below USD 2000 monthly earning. Thus, these respondents need a finance to enable them to have a real-estate. Moreover, the respondents showed a good education level where 82 % are high postgraduate level and 18 % are holding bachelor degree . However, the level of awareness about Islamic banks alternatives in Palestine was high for Murabahah as 60% where it was in an average level for Ijarah as 40%. In terms of age grouping, 73 % of respondents are between the ages of 30 to 45 years. According to Erol & El-Badour (Erol & El-Bdour, 1989), the customer's attitude and behavior in ages of 30 to 40 has powerful effects on the Islamic banking policies. Thus, the result of this sample, provides useful insights on how these prospective groups of respondents perceived Murabahah and Ijarah real estate financing products.

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Descriptive Analysis of Variables

9.1.1. Concept of Murabahah and Ijarah

A group of respondents agreed on the similarity between real estate financing by the instrument of Murabahah and conventional real estate financing, and 54% of respondents agreed that Murabahah is a financing contract and the bank is a financier, not a true seller. The respondents showed a good understanding level of financing the real –estate by using Murabahah with clear attention that there is no Riba in Murabahah. In terms of awareness, 58% of the respondents showed a good level of awareness about Murabahah real-estate financing and its feature. On the other hand, some of respondents agreed on the similarity between financing the real estate by using Ijarah and conventional lease, and 51% agreed that Ijarah is a financing contract, not a lease contract, and the bank is a financier, not a true leaser, but they rejected the existence of Riba in Ijarah . In terms of awareness 40% of the respondents understand financing the real estate by using Ijarah and its features. This rate is lower than the awareness of Murabahah. Thus, Ijarah has a low rate of understanding because of the modernity of using this contract in Palestine, while the usage of Murabahah is more popular.

9.1.2. Pricing Method of Murabahah and Ijarah

The majority of respondents agreed on the high price for paying a real estate using Murabahah because the profit rate is derived from market interest rate. Similarly, they agreed on the similarity between Murabahah and conventional real estate financing in calculating the profit. Furthermore, the respondents prefer pricing based on a profit rate rather than an interest rate in Murabahah. On the other hand, the majority of respondents agreed on the high cost of the real estate price by using Ijarah because it is derived also from market interest rate. Similarly, they also agreed on the similarity between Ijarah and conventional real estate financing in calculating the profit. Furthermore, the respondents prefer pricing based on a rental rate rather than an interest rate in Ijarah.

9.1.3. Debt-based financing in Murabahah and Ijarah

The respondents showed an awareness of Murabahah as a debt contract, where the result demonstrated there is a role of financing the real estate by Murabahah in increasing the level of indebtedness in the society. This supported that the respondents agreed Murabahah does not reflect the true spirit of Islamic finance and the transferring of risk in Murabahah financing to the customer due to the nature of Murabahah contract as a debt contract. However, the respondents somewhat agreed on the type of relationship between the Islamic bank and the customer as a seller and buyer. This relationship is not truly clear for respondents. On the other hand, the respondents showed an awareness of Ijarah as a debt contract where the result indicated there is a role of Ijarah home financing in increasing the level of indebtedness in the society. This supported by the respondents agreed on Ijarah real-estate finance does not reflect the true spirit of Islamic finance but they agreed on the bank responsibility in holding risk in Ijarah contract which is different from Murabahah where the bank is transferring the risk to the customers. However, the respondents agreed on the type of relationship between the Islamic bank and the customer as a lessor and lessee.

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Hypothesis Testing

The aim of this study is to investigate Islamic real-estate financing alternatives in Palestine. In this research, comparisons were made between the debt home financing alternatives, which are Murabahah to the Purchase Ordered and Ijarah Muntahia bi al-Tamlik regarding concept, method of pricing and debt based financing. In this regard, three hypotheses were tasted using Paired T- test. In this study, Paired T-test was used because the study required the responses of two different products for the same sample. The first hypothesis examined the difference in customers' perception of the concept and practice between Murabahah to the Purchase Ordered and Ijarah Muntahia bi al-Tamlik. The results of the hypotheses testing indicated that there are a significant difference (0.001≤0.05) in customers' perception usage of concept between Murabahah to the Purchase Ordered and Ijarah Muntahia bi al-Tamlik real-estate finance .

The second hypothesis examined the difference in customers' perception of the pricing method between Murabahah to the Purchase Ordered and Ijarah Muntahia bi al-Tamlik real estate finance. The results indicated that there are no significant differences(0.914≤0.05)in customers' perception of the pricing method between Murabahah to the Purchase Ordered and Ijarah Muntahia bi al-Tamlik real-estate financing.

The third hypothesis examined the difference in customers' perception of the debt based financing in Murabahah to the Purchase Ordered and Ijarah Muntahia bi al-Tamlik real-estate financing. The results indicated that there are no significant differences (0.144≤0.05) in customers' perception of the debt based financing between Murabahah to the Purchase Ordered and Ijarah Muntahia bi al-Tamlik real estate financing.

Summary of Findings

The overall results have shown that there is no significant difference between Murabahah to the Purchase Ordered and conventional real estate financing. Furthermore, the empirical result put forth some issues in the case of Murabahah real estate financing in the context of concept and practice, pricing method, and debt-based financing. First, in terms of concept and practice, 66.2% of respondents agreed on the similarity between Murabahah and conventional real estate financing. This is supported by Hanif, (Hanifa, 2014). The study showed an increase of around 20% in the level of awareness around customers regarding Murabahah and its features. This result can be attributed to the widespread use of Murabahah’s contract in Islamic banks. Second, in terms of the pricing method, the survey results indicated that a group of respondents feel that the pricing on Murabahah is high, as it is derived from the market interest rate, where they also agree on the similarities between Murabahah and conventional real estate financing in calculating prices, where Islamic banks replaced the interest rate with the profit rate. The results agreed with Meera & Razak (2005). Third, in terms of debt-based financing, the result agreed that Murabahah is a debt contract, and it contributes to the increase of indebtedness in the society, which is in line with Murabahah and not reflective of the true spirit of Islamic finance, according to the survey results. In the final evaluation, only 32 % of the customers agreed that they will choose Murabahah if they apply for real estate financing.

In contrast, customers' perception of Ijarah Muntahia bi al-Tamlik real estate financing is not significantly different from a conventional lease. Furthermore, the empirical results have pointed out some issues pertaining to Ijarah Muntahia bi al-Tamlik (IMBT) real estate financing in terms of concept and practice, pricing method, and debt-based financing. First, in terms of concept and practice, 60 % of respondents agreed upon the similarities between IMBT home financing and conventional lease. This is supported by Codad & Bin Abdullah (Codad & Bin Abdullah, 2013), The study showed that 57% of the respondents are unfamiliar with Ijarah Muntahia bi al-Tamlik and its features. Second, in terms of the pricing method, the survey results indicated that the majority of the respondents feel that the pricing on IMBT is high, as it is derived from the market interest rate, where they also agreed on the similarity between IMBT and conventional home financing in calculating prices. Islamic banks replaced the interest rate with rental rate this argument supported by Meera & Razak (Meera, Kameel, & Abdul Razak, 2005). The results also concur with Dusuki (Dusuki, Previous source, 2007), who pointed out that Islamic banks use similar a method of computation, as in conventional banks, to calculate the present and future value of investments. Third, in terms of debt-based financing, the results concurred that IMBT is a debt contract, and it contributes to the increasing indebtedness of the society, which is in line with IMBT and reflective of the true spirit of Islamic finance according to the survey result. In the final evaluation, 67 % of the customers agreed that they would choose Ijarah Muntahia bi al-Tamlik. This can be attributed to the nature of IMBT as a lease contract, where the bank holds the risks associated with ownership.

X. CONCLUSION

There is a huge potential real estate finance in the local market , and the main purpose of the study is to investigate the real estate finance by using alternative Islamic finance instruments based on the concept of indebtedness in Palestine. In this research, comparisons were made between the debt alternatives of real estate financing provided by the Palestinian Islamic banks, which are Murabahah to the Purchase Ordered and Ijarah Muntahia bi al-Tamlik (IMBT). This research is envisaged to expound the theoretical side of knowledge on Islamic real estate in Palestine that will benefit both academics and the industry. In addition, it will benefit the regulators in making policy decisions via the provision of guidelines on Islamic real estate financing products in order to promote the Islamic banking and finance industry in Palestine. Based on the overall findings of this study, there is no significant difference between Murabahah to the Purchase Ordered and Ijarah Muntahia bi al-Tamlik. However, the successful implementation of bank industry in Palestine depends on how much the stakeholders heed to the recommendations provided in this study.

This research is regarded as a preface to further research that is not covered in this study. The study encourages further research on equity financing as an alternative to debt-based financing in Palestine. More products should be introduced by Islamic banks in Palestine for real estate financing, such as musharakah and Istisna'a to fulfill Palestinian needs. Thus, there is a need to introduce Islamic products from a modern perspective, which will contribute to increasing market proportion of Islamic banking and enhancing their competitive position.

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