

FROM HOUSE OF CARD TO HOUSE OF BRICKS REAL ESTATE BROKERS: OPTIMIZE YOUR OPERATING STRUCTURE!



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The paradox of the Dubai real estate market is that most players in the brick-and-mortar game are relying on vastly fragile operating structures. Here is how they can improve them!

House of cards

For starters, real estate brokerage businesses can only be formed under full UAE national ownership under applicable UAE legislations. And while a roll-out of full ownership for foreigners in the UAE mainland is imminent, it is unlikely that ownership restrictions applying on 'strategic' real estate activities will be lifted.

This leaves Real estate brokerage operators with the constant stress of validating their arrangements over control and delegation of powers, and with limited ability to create tangible value.

There is more: the majority of real estate brokerages operate through sole establishments / civil partnerships, vehicles with no limited liability and substantial 'person' risk linked to the proprietor.

A sole proprietor - i.e. its individual owner - is personally liable for all debts incurred by the real estate brokerage. This means that a creditor can go after all the owner's assets whether personal or business-related (e.g. personal bank accounts, cars and real estate property).

Partnerships do not provide more protection. It does not have limited liability and a partner might find himself personally liable for all the partnerships' debts and lawsuits incurred by another partner.

And what if an individual proprietor passes? The sole establishment - and the entire business - will be gone with him. Years of hard work turned into dust. Literally, a house of cards.

Brick by brick

The introduction of sole shareholder Limited Liability Companies (LLC) was a first step in the right direction.

Nowadays, it is possible for sole establishments to be morphed into sole shareholder LLCs, thereby limiting the proprietor's liability to the extent of his/her share in the capital of the LLC.

But LLCs do not address business continuity and 'person' risk linked to the (UAE national) proprietor.

Enter the foundation. Available domestically since 2017, foundations have rapidly become the go-to option for regional business continuity.

Like a company, a foundation is an independent legal entity with a distinct personality, separate from the founder. However, it is a so-called 'orphan' structure: it has no shareholders or members.

A foundation can exist in perpetuity - ideal for business continuity. It can hold assets in its own name separately from the founder's personal wealth, thereby ring-fencing these assets from attacks - creditors, divorce - and succession procedures.

A foundation holding shares of a sole shareholder LLC effectively makes the business perpetual, whatever happens to the (UAE national) proprietor - a house of brick.

Real Estate brokers: take action!

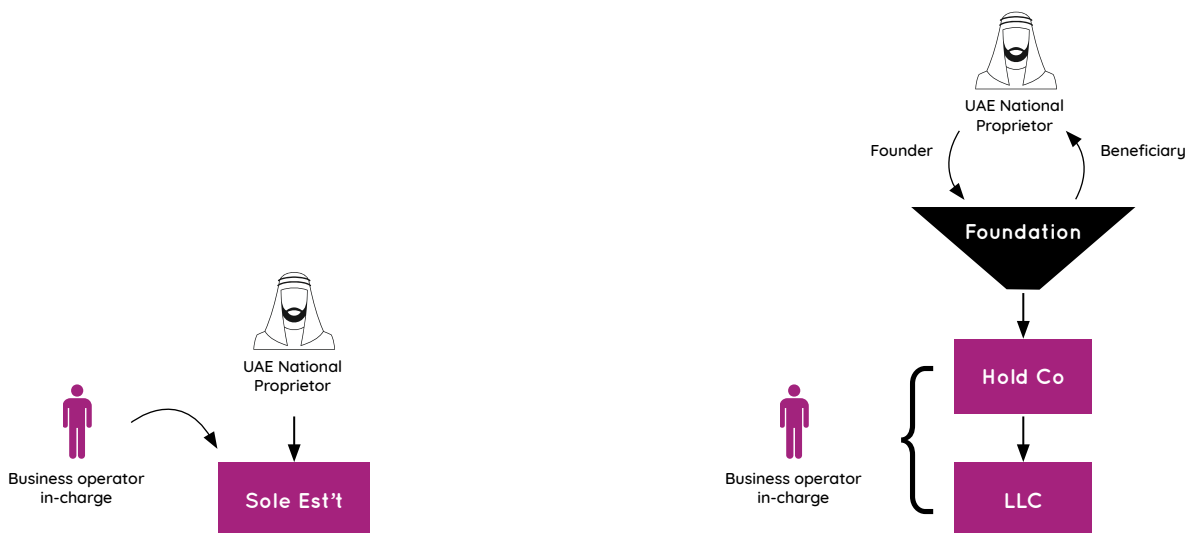
For years, operators in the brick-and-mortar game had no choice but to rely on sub-par, vastly fragile, substantially risk-prone operating structures.

Times have changed. The regulatory framework has evolved and avenues of structural optimization - and value creation! - are available for who cares to look.

When was the last time you re-evaluated your corporate structure?

Real Estate brokers: time to optimize your operating structure! From house of cards to house of bricks

Grow your business with the right foundation! Talk to us



Before

- Sole establishment registered in 'UAE National proprietor's' individual name
- Sole establishment operated by an individual 'Business operator in-charge'

After

- Sole shareholder LLC, held by Foundation/Holdco
- National proprietor' as Founder & Beneficiary
- LLC (and Holdco) operated by individual 'Business operator in-charge'

What improves?

1. **Business Continuity:** no more "person" risk linked to (UAE national) proprietor. Ultimate ownership via foundation. Seamless business continuity.
2. **Value Creation:** robust corporative structure = higher valuation and ease to transfer stakes to new financial partner/s or exit.
3. **Asset Protection:** business ring-fenced from potential attacks against principal/s & proprietor/s.
4. **Legacy Planning:** smooth passing from revenue generating asset to family and next generation.

ABOUT M/HQ

We are a multi-services platform catering to a broad spectrum of clients - from individual entrepreneurs and local SMEs to wealthy international families, to established blue-chip companies and multinationals. Our one-stop-shop offering is unique in the Middle East: a holistic and cross-disciplinary combination of a market-leading corporate services firm, a law firm's specialist expertise and a regulatory & compliance services practice, all through one single platform.

We have broad experience advising successful individuals and international families on a broad range of legacy planning and wealth structuring issues, including structuring of operational and non-operational assets. We particularly assist in relation to establishing foundations, drafting charter and by-laws, advising on the foundation objects and structuring of foundation assets, and guiding the founder on the foundation governance strategy and implementation.

Headquartered in the UAE, we are an entrepreneurial firm for entrepreneurial clients.