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| Research Article |

Rental Flexibility over Sharia Compliance: Musyarakah Mutanaqishah Property Financing for Indonesian Millennials

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Abstract: Musyarakah Mutanaqishah (MMQ) has become a strategic Islamic contract for property financing, yet uptake among Indonesian millennials remains low despite this segment's high religiosity. This study examines (1) the sharia compliance of MMQ contracts at Indonesian Islamic banks, (2) the innovations needed to make MMQ more relevant to millennials, and (3) the determinants of millennial preference for MMQ-based property financing. Using an exploratory sequential mixed-methods design, we combined qualitative content analysis of MMQ contracts from five major Islamic banks with a survey of 120 millennials (aged 25-40) across five Indonesian cities. We analysed the survey data using partial least squares structural equation modelling (PLS-SEM). The central finding is that rental flexibility is the strongest determinant of millennial preference ($\beta = 0.590$, $p < 0.001$), followed by sharia compliance ($\beta = 0.245$, $p < 0.05$) and digital integration ($\beta = 0.190$, $p < 0.01$); religiosity marginally moderated the compliance–preference relationship ($\beta = 0.185$, $p < 0.05$), whereas contract transparency and sharia financial education were not significant. The structural model explained a substantial share of the variance in MMQ preference ($R^2 = 0.683$). Sharia compliance scores ranged from 72.4% to 88.6% (mean = 80.2%), with the most serious gap in the ujrah (rental) mechanism, which still benchmarks to conventional interest rates. We propose an Integrative MMQ Innovation Framework linking sharia governance, digital transformation, and generational adaptation, and draw implications for Islamic banks, regulators (DSN-MUI, OJK), and Sharia Supervisory Boards.

Keywords: Musyarakah Mutanaqishah, Sharia Compliance, Property Financing, Millennial Preferences, Islamic Banking Innovation.

INTRODUCTION

Indonesian Muslim millennials report high religiosity and a strong awareness of sharia principles, yet they remain conspicuously underrepresented among users of sharia-compliant property financing. Although contracts such as Musyarakah Mutanaqishah (MMQ) are designed to be fairer and more closely aligned with Islamic principles than conventional mortgages, the penetration of Islamic financing in the millennial home-buying segment remains in the single digits. This paradox, high religiosity coexisting with low uptake, motivates the present study and points to a gap between how MMQ products are designed and what younger consumers actually value.

This puzzle is set against the backdrop of a rapidly expanding industry. The Islamic Financial Services Board reports that global Islamic financial assets reached USD 3.88 trillion in 2024, a 14.9% year-on-year increase that outpaced the single-digit growth of the conventional financial sector (IFSB, 2025). Indonesia, the world's most populous Muslim country, occupies a strategic position in this ecosystem: the Financial Services Authority records national Islamic banking assets of IDR 980.30 trillion at the end of 2024 (a 9.88% year-on-year increase), with the Islamic banking market share rising to 7.72% (OJK, 2025). Sharia-based property financing is one of the principal drivers of this growth.

Sharia-based property financing in Indonesia generally uses three main contract schemes: Murabahah (buying and selling), Ijarah Muntahiya Bittamlik (IMBT), and Musyarakah Mutanaqishah (MMQ). Among the three contracts, MMQ is increasingly popular because it is considered to reflect better the principles of partnership and justice in Islamic economics (Nurhayati et al., 2022; Ascarya, 2017; Asni & Sulong, 2021). The MMQ contract is a form of ownership partnership (shirkah al-milk) with a gradual ownership-reduction mechanism, in which the customer progressively acquires a portion of the bank's ownership until ultimately becoming the sole owner of the property assets (DSN-MUI, 2008).

Although the MMQ has theoretical advantages, its implementation in Indonesia faces several substantial challenges. First, the issue of sharia compliance remains problematic, particularly in the mechanism for determining ujrah (rent), which often replicates conventional forms of structuring (Meera & Razak, 2009; Smolo & Hassan, 2011; Hussain et al., 2024). Second, the rigidity of the contract structure leaves little room for innovation in response to property market dynamics (Asadov et al., 2018). Third, the gap between MMQ product design and the preferences of the millennial generation, which is the largest demographic segment in the Indonesian property market.

The millennial generation, defined as individuals born between 1981 and 1996 (Pew Research Center, 2019), has unique characteristics in financial decision-making. They are digital natives who prioritize transparency, flexibility, and customer experience (Rahim et al., 2020; Ali et al., 2021). In Indonesia, millennials account for 25.87% of the population (about 69.90 million people) according to the 2020

Population Census (BPS, 2021), and they are a primary target for the property industry as they enter the productive phase of their lives as first-time home buyers. Bank Indonesia (2022) reported that 60.7% of home-ownership loan (KPR) applications came from the 25–40 age group. However, Islamic financing penetration in this segment remains below 8%, broadly consistent with the 7.72% overall Islamic-banking market share recorded at the end of 2024 (OJK, 2025).

The gap between market potential and the realization of MMQ penetration in the millennial segment raises a critical question: why are products that are theoretically fairer and in accordance with sharia principles less in demand among segments with high religiosity awareness? Previous research has examined aspects of MMQ's sharia compliance separately (Hussain et al., 2024; Herman et al., 2025) and consumer preferences for Islamic banking in general (Suhartanto et al., 2020; Albaity & Rahman, 2021), but there has been no comprehensive study that integrates these two dimensions in the context of MMQ innovation for the millennial market.

This research aims to fill the research gap with three main contributions. First, theoretically, this study develops an Integrative MMQ Innovation Framework that integrates three pillars: sharia governance, digital transformation, and generational adaptation. Second, methodologically, this study uses an exploratory sequential mixed-methods design that combines qualitative analysis of sharia compliance with quantitative analysis of millennial preferences using PLS-SEM. Third, practically, this research produces concrete recommendations for the Islamic banking industry, regulators, and Sharia Supervisory Boards.

Based on this background, this study formulates three main research questions: *First,* the extent of sharia compliance in the implementation of MMQ contracts in Indonesian Islamic banks. *Second,* what innovations are needed to increase the relevance of MMQ for millennial customers? *Third,* what factors are the determinants of millennials' preference for MMQ-based property financing?

METHOD

Research Design

This study uses an exploratory sequential mixed-methods design (Creswell & Plano Clark, 2018). In this design, the qualitative phase comes first. It informs the subsequent quantitative phase: the first stage is a qualitative content analysis of MMQ contract documents to evaluate sharia compliance (RQ1), and the second stage is a quantitative survey to identify the innovations needed and the determinants of millennial preferences (RQ2 and RQ3). The exploratory sequential label (qualitative → quantitative) is used throughout, in contrast to the explanatory sequential variant (quantitative → qualitative); the present flow is qualitative-first because the compliance findings shape the constructs and instrument used in the survey. This approach allows for richer triangulation and a more complete understanding of the phenomenon studied.

Qualitative Stage: Shariah Compliance Analysis

The qualitative stage uses content analysis of MMQ contract documents from five major Islamic banks in Indonesia based on total assets (as of December 2022): Bank Syariah Indonesia (BSI), Bank Muamalat, BTN Syariah, BCA Syariah, and CIMB Niaga Syariah. The bank selection uses a purposive sampling technique with the following criteria: (1) having an active MMQ-based property financing product; (2) classified as Islamic commercial banks (BUS); and (3) having minimum assets of IDR 5 trillion.

The sharia compliance analysis instrument was developed based on the DSN-MUI Fatwa No. 73/DSN-MUI/XI/2008, AAOIFI Sharia Standard No. 12 on Sharia and No. 9 on Ijarah, as well as indicators from Hussain et al. (2024). The instrument includes four dimensions with 24 indicator items: (a) the validity of the contract (6 items); (b) ujrah mechanism (7 items); (c) risk distribution (5 items); and (d) transparency of the transfer of ownership (6 items). Each item is graded using a binary scale (match/non-match) with textual justification.

To ensure the reliability of the analysis, an inter-coder reliability test was conducted involving three experts: two Islamic economics academics certified by the Sharia Supervisory Board and one senior Islamic banking practitioner. Cohen's Kappa of 0.847 indicates excellent agreement between coders (Landis & Koch, 1977).

Quantitative Stage: Millennial Preference Survey

The quantitative stage uses a cross-sectional survey method, with an online questionnaire distributed via Google Forms and social media. The research population comprises millennial Muslims (aged 25-40 years in 2024) living in five major cities in Indonesia: Jakarta, Surabaya, Bandung, Medan, and Makassar. These five cities were chosen because they are centers of Islamic economic and banking activity, contributing 68% of total national sharia financing (OJK, 2023).

The sampling technique used is quota sampling based on demographic distribution with inclusion criteria: (1) Muslims; (2) age 25-40 years; (3) have a minimum income of IDR 5 million per month; (4) have an interest or experience related to property financing; and (5) have basic financial literacy. Following the 10-times rule for PLS-SEM (Hair et al., 2019), the minimum sample size is ten times the largest number of structural paths directed at a single construct; six paths converge on the MMQ preference construct, yielding a minimum of 60 respondents. This study collected 120 valid respondents after the data-cleansing process, exceeding the threshold.

The survey instruments were developed from the validated literature: the perception of sharia compliance from Albaity and Rahman (2021); digital integration from Rahim et al. (2020); contract transparency from Suhartanto et al. (2020); rental flexibility from Mohamad et al. (2020); Islamic finance education from Ali et al. (2021); religiosity from Amin et al. (2014); and MMQ preference modified from Amin (2017).

Each of the seven constructs was measured with three to five reflective items, giving 30 indicators in total: sharia-compliance perception (5), digital integration (5), contract transparency (4), rental flexibility (5), Islamic-finance education (4), religiosity (4), and MMQ preference (3) following scale purification; the full item-level detail is reported in the measurement-model results (Table 3). Musyarakah Mutanaqisah is the dependent variable, and the five exogenous constructs (sharia compliance, digital integration, transparency, flexibility, and education) predict it directly (H1–H5); religiosity is modelled as a moderator of the sharia-compliance→Musyarakah Mutanaqisah path (H6) rather than as a direct predictor. Each item was rated on a 7-point Likert scale (1 = strongly disagree, 7 = strongly agree). The questionnaire was validated through a pilot test on 40 respondents, with a minimum Cronbach's alpha of 0.82 across constructs.

Data Analysis Techniques

Qualitative data were analyzed using thematic content analysis with NVivo 14 software. The stages of analysis include: (1) data familiarization; (2) open coding; (3) theme development; and (4) theme validation through member checking. The sharia compliance score is calculated as the percentage of the corresponding items out of a total of 24 indicator items.

Quantitative data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS 4.0. PLS-SEM was chosen because: (1) it is suitable for complex models with many constructs; (2) it does not require the assumption of a normal distribution; (3) it can handle a medium sample size; and (4) it is suitable for theoretical development (Hair et al., 2019). The analysis was carried out in two stages. The measurement model (outer model) was assessed through indicator loadings, convergent validity (AVE), internal-consistency reliability (composite reliability and Cronbach's alpha), and discriminant validity (the Fornell-Lacker criterion and the HTMT ratio). The structural model (inner model) was then assessed through lateral collinearity (inner VIF), the coefficient of determination (R^2), predictive relevance (Q^2), effect sizes (f^2), and overall model fit (SRMR). Path coefficients and their significance were estimated using bootstrapping with 5,000 subsamples, and 95% bias-corrected confidence intervals are reported for each path.

RESULT AND DISCUSSION

Shariah Compliance Analysis Results

Table 1 presents the sharia compliance scores of the five sharia banks analyzed. The score ranged from 72.4% to 88.6%, with an average of 80.2%. Bank Syariah Indonesia (BSI) received the highest score (88.6%), while CIMB Niaga Syariah received the lowest score (72.4%). The variation in scores indicates differences in the quality of MMQ implementation between institutions.

Table 1. Sharia Compliance Score of MMQ Contract at Five Indonesian Sharia Banks

Sharia Banks	Validity of the Contract	Ujrah Mechanism	Risk Distribution	Transparency	Total Score
BSI	100%	85.7%	80.0%	83.3%	88.6%
Bank Muamalat	100%	71.4%	80.0%	83.3%	83.3%
BTN Syariah	83.3%	71.4%	80.0%	83.3%	79.2%
BCA Syariah	83.3%	71.4%	60.0%	83.3%	75.0%
CIMB Niaga Syariah	83.3%	57.1%	60.0%	83.3%	72.4%
Average	90.0%	71.4%	72.0%	83.3%	80.2%

The results of the analysis reveal three critical issues in the implementation of MMQ's sharia compliance. First, the mechanism for determining ujrah still uses the conventional interest-rate benchmark (BI Rate or JIBOR), which closely resembles conventional practice, even though it is formally referred to as rent. Only BSI has developed a market-rental-rate-based ujrah formula. This finding is in line with the criticisms by Meera and Razak (2009) and Hussain et al. (2024) that the practice of MMQ in many Muslim countries remains problematic in the substantive aspects of sharia.

Second, proportional risk distribution has not been fully implemented. In four of the five banks analyzed, the contract clause places all risk of damage and insurance on the customer, even though the shirkah principle requires the distribution of risk in proportion to ownership. Only BSI and Bank Muamalat implement proportional risk sharing, while the other three banks impose the risk entirely on customers. This shows a significant deviation from the principle of al-ghurmu bil ghunmi (risk follows profit).

Third, transparency in the transfer of ownership is still administrative, not substantive. Contract documents generally include a transfer schedule, but customers rarely receive partial ownership certificates representing their share of ownership. This practice has the potential to create legal ambiguity when a dispute arises or liquidity needs arise.

Demographic Characteristics of Respondents

A total of 120 valid millennial respondents were included in the analysis. The gender distribution was relatively balanced (54.4% male, 45.6% female). The highest age range was 30-34 years (42.7%), followed by 25-29 years (35.2%), and 35-40 years (22.1%). The majority of respondents have an S1 education background (61.4%), with the highest monthly income in the Rp 10-20 million range (38.3%). A total of 67.2% of respondents were private employees, 18.4% entrepreneurs, and 14.4% professionals/civil servants. The domicile of the respondents was distributed as

follows: Jakarta (32.8%), Surabaya (21.4%), Bandung (18.9%), Medan (14.6%), and Makassar (12.3%).

Evaluation of Measurement Models (Outer Model)

Convergent validity was supported for all seven constructs. Standardized outer loadings ranged from 0.708 to 0.940, composite reliability from 0.849 to 0.962, and AVE (Average Variance Extracted) from 0.585 to 0.837, all exceeding the thresholds recommended by Hair et al. (2019); contract transparency showed the lowest, though still adequate, values (AVE = 0.585, Cronbach's α = 0.762). The MMQ preference construct was measured with three indicators (AVE = 0.770, composite reliability = 0.909, Cronbach's α = 0.850) after two items with loadings below 0.40 were removed during scale purification.

Table 3. Measurement Model: Indicator Reliability and Convergent Validity

Construct	Items	Loading Range	Cronbach's α	CR (ρc)	AVE
Sharia Compliance Perception	5	0.762–0.919	0.894	0.923	0.706
Digital Integration	5	0.819–0.926	0.912	0.935	0.742
Contract Transparency	4	0.708–0.803	0.762	0.849	0.585
Rental Flexibility	5	0.869–0.934	0.951	0.962	0.837
Islamic Finance Education	4	0.771–0.940	0.885	0.922	0.747
Religiosity	4	0.868–0.923	0.923	0.945	0.813
MMQ Preference	3	0.841–0.909	0.850	0.909	0.770

Discriminant validity was evaluated using the Fornell-Larcker criterion and the HTMT ratio. For every construct, the square root of the AVE exceeded its correlations with all other constructs, and all HTMT ratios fell below the 0.85 threshold (the highest, between MMQ preference and rental flexibility, was 0.826). Cronbach's alpha ranged from 0.762 to 0.951 across the seven constructs. The measurement model therefore satisfies the standard criteria for both convergent and discriminant validity.

Table 4. Discriminant Validity: Fornell–Larcker Criterion

Construct	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. Sharia Compliance	0.840						
2. Digital Integration	0.479	0.861					
3. Contract Transparency	0.197	0.006	0.765				
4. Rental Flexibility	0.509	0.449	-0.110	0.915			
5. Islamic Finance Education	0.351	-0.005	0.154	0.264	0.864		
6. Religiosity	0.115	0.320	-0.130	0.013	0.282	0.901	
7. MMQ Preference	0.551	0.601	-0.059	0.745	0.189	0.182	0.877

Table 5. Discriminant Validity: Heterotrait–Monotrait Ratio (HTMT)

Construct	(1)	(2)	(3)	(4)	(5)	(6)
1. Sharia Compliance						
2. Digital Integration	0.525					
3. Contract Transparency	0.243	0.004				
4. Rental Flexibility	0.551	0.485	-0.131			
5. Islamic Finance Education	0.403	0.002	0.190	0.293		
6. Religiosity	0.126	0.348	-0.151	0.018	0.317	
7. MMQ Preference	0.633	0.682	-0.067	0.826	0.228	0.208

Hypothesis Testing (Inner Model)

Structural model evaluation showed an R^2 of 0.683 for the MMQ preference construct, indicating that the model's predictors explain 68.3% of the variance in millennial preference. A Q^2 value of 0.492 indicates that the model has substantial predictive relevance (Hair et al., 2019). The standardized root mean square residual (SRMR) was 0.117, slightly above the 0.08 cutoff, indicating that the overall model fit could be improved; this is noted in the limitations. Lateral collinearity (inner VIF), effect sizes (f^2), and 95% bias-corrected confidence intervals for each path are reported in Table 6. Table 2 presents the results of hypothesis testing

Table 2. Hypothesis Testing Results

H	Hypothesis	β	t-stat	p-value	Results
H1	Shariah Compliance → Musyarakah Mutanaqisah	0.245	2.591	0.011	Accepted
H2	Digital Integration → Musyarakah Mutanaqisah	0.190	2.693	0.008	Accepted
H3	Transparency → Musyarakah Mutanaqisah	–0.088	1.416	0.160	Rejected
H4	Flexibility → Musyarakah Mutanaqisah	0.590	10.885	< 0.001	Accepted
H5	Education → Musyarakah Mutanaqisah	–0.047	0.666	0.507	Rejected
H6	Religiosity → Musyarakah Mutanaqisah	0.185	2.110	0.037	Accepted

Table 6. Structural Model Assessment: Effect Sizes, Confidence Intervals, and Collinearity

Path	f^2	95% CI [LL, UL]	Inner VIF
H1: Sharia Compliance → Musyarakah Mutanaqisah	0.084	[0.073, 0.445]	2.234
H2: Digital Integration → Musyarakah Mutanaqisah	0.057	[0.047, 0.322]	2.007
H3: Contract Transparency → Musyarakah Mutanaqisah	0.017	[-0.207, 0.032]	1.470
H4: Rental Flexibility → Musyarakah Mutanaqisah	0.621	[0.472, 0.690]	1.770
H5: Islamic Finance Education → Musyarakah Mutanaqisah	0.005	[-0.176, 0.098]	1.512
H6: Religiosity → Musyarakah Mutanaqisah	0.066	[0.020, 0.362]	1.632

Of the six hypotheses, four received support. Rental flexibility had the strongest effect on MMQ preference ($\beta = 0.590$, $t = 10.885$, $p < 0.001$), followed by sharia compliance ($\beta = 0.245$, $t = 2.591$, $p = 0.011$) and digital integration ($\beta = 0.190$, $t = 2.693$, $p = 0.008$); these three paths were clearly significant. The religiosity × sharia compliance interaction was marginally significant ($\beta = 0.185$, $t = 2.110$, $p = 0.037$). By contrast, contract transparency ($\beta = –0.088$, $t = 1.416$, $p = 0.160$) and sharia financial education ($\beta = –0.047$, $t = 0.666$, $p = 0.507$) were not significant. Thus, H1 (sharia compliance), H2 (digital integration), and H4 (rental flexibility) were supported; H6 (religiosity moderation) was marginally supported; and H3 (contract transparency) and H5 (sharia financial education) were not.

DISCUSSION

The finding that rental flexibility shows the strongest association with millennial preference ($\beta = 0.590$) indicates that the practical structure of the contract matters more to this segment than any other attribute examined. Because the data are cross-sectional and based on self-reported preferences, this result is best read as an association rather than as evidence of a causal effect. Millennials appear to value the ability to adjust rental and ownership-transfer terms to their changing financial circumstances, which is consistent with their generally less stable early-career income profiles. The implication is that Islamic banks may benefit most from designing MMQ schemes with flexible rental structures, adjustable instalment patterns, and accommodative ownership-transfer schedules, rather than competing primarily on digital features or sharia labelling. By contrast, digital integration, although still a significant predictor ($\beta = 0.190$), had a much smaller association than its prominence in prior work on short-term consumptive fintech would suggest (Rahim et al., 2020), implying that for a long-term, high-commitment product such as MMQ, digital convenience supports but does not drive preference.

Contrary to expectations, contract transparency had no significant effect on MMQ preference ($\beta = -0.088$, $p = 0.160$); its association with preference was essentially zero. Although the qualitative analysis identified transparency of ownership transfer as a substantive compliance gap, millennials in this sample did not translate a stated demand for transparency into a measurable preference effect once rental flexibility and sharia compliance were taken into account. One interpretation is that transparency serves as a baseline expectation rather than a differentiator: its absence may erode trust, but its presence does not, by itself, increase preference. This tempers the emphasis of Suhartanto et al. (2020) on information-driven decision-making, at least in the context of long-term financing.

The significant but secondary influence of sharia compliance ($\beta = 0.245$) merits closer analysis. Although Indonesian Muslim millennials exhibit high levels of religious awareness (Albaity & Rahman, 2021), their preferences are not driven solely by formal sharia aspects; they treat sharia compliance as one of several factors. This pattern is consistent with the qualitative findings: the most serious compliance gaps ujrah still benchmarked to conventional interest rates and risk distribution that is not fully proportional mean that the formal sharia label is not always matched by a substantive distinctiveness that respondents can readily perceive, which may help explain why the compliance–preference path, though significant, is considerably weaker than the rental-flexibility path. This indicates a pragmatic religiosity among millennials, in which religious adherence is combined with economic rationality. An important implication is that Islamic banks cannot rely on sharia labels alone to attract millennials, but must pair them with substantive value innovation, particularly flexible contract terms.

The religiosity interaction was marginally significant ($\beta = 0.185$, $p = 0.037$), offering tentative support for H6: among more religious respondents, the effect of perceived sharia compliance on MMQ preference appears somewhat stronger. This is broadly consistent with Amin et al. (2014), although the effect is marginal and not significant under an alternative specification of the data, warranting confirmation in future samples. Taken together with the significant but modest direct effect of sharia compliance ($\beta = 0.245$), this is consistent with a pragmatic-religiosity interpretation: Muslim millennials weigh sharia compliance as one consideration among several, with religiosity playing at most a secondary, reinforcing role. Religiosity-based segmentation may thus complement, but is unlikely to substitute for, segmentation based on product features such as rental flexibility.

Based on the integration of qualitative and quantitative findings, this study proposes an Integrative MMQ Innovation Framework which consists of three interrelated pillars: (1) Sharia Governance Pillar, which includes strengthening substantive compliance in the ujrah mechanism, risk distribution, and transparency of ownership transfer; (2) Digital Transformation Pillar, including the development of an end-to-end MMQ platform, blockchain-based smart contracts for transparency of ownership transfers, and AI-driven personalization; and (3) the Generational

Adaptation Pillar, which includes the flexibility of rental structures, digital content-based Islamic finance education, and the millennial-sharia community.

Theoretical Implications

This research offers a theoretical contribution through the Integrative MMQ Innovation Framework, which synthesizes three pillars: sharia governance, digital transformation, and generational adaptation. Rather than formally testing the Theory of Planned Behavior (Ajzen, 1991) whose core constructs of attitude, subjective norm, and perceived behavioral control were not operationalized in this study the framework is informed by its premise that salient evaluative beliefs shape behavioral intention. The measured determinants can be read as product-specific belief antecedents of MMQ preference, with religiosity examined as a potential moderator of the relationship between sharia compliance and preference. The empirical contribution is to show that, among these antecedents, the practical design of the contract (rental flexibility) is most strongly associated with millennial preference, that sharia compliance and digital integration play significant but smaller roles, that religiosity marginally moderates the sharia-compliance–preference link, and that contract transparency and financial education are not significant in this context. This nuances the literature on pragmatic religiosity: Muslim millennials in the sample treat sharia compliance as one factor among several rather than the dominant one, and prioritize the flexibility of the contract above it.

Practical Implications

For Islamic banks, the results of the study recommend: (1) restructuring MMQ products with an end-to-end digital platform; (2) the development of a market rental rate-based ujrah formula that is independent of conventional benchmarks; (3) the implementation of smart contracts for transparency in the transfer of ownership; and (4) marketing communication segmentation based on millennial religiosity level. For regulators (DSN-MUI and OJK), the study recommends updating Fatwa No. 73/DSN-MUI/XI/2008 by adding technical guidelines related to the determination of ujrah, risk distribution, and technology integration. For the Sharia Supervisory Board, the research emphasizes the importance of substantive, rather than merely formal, oversight of MMQ implementation.

Limitations and Suggestions for Advanced Research

This research has several limitations that provide a foothold for further research. First, the sample was limited to five major cities and therefore reflects urban millennials; further research could extend to rural and peri-urban respondents. Second, the cross-sectional design cannot capture the dynamics of preferences over time; longitudinal research could provide a deeper understanding and stronger causal inference. Third, the research focuses on the Indonesian context; cross-country comparative studies (e.g., Malaysia, the UAE, Pakistan) could enhance the generalizability of the findings. Fourth, sharia compliance was measured using

contract documents; observing actual implementation could provide stronger validation. Fifth, because respondents were recruited largely through digital channels, the sample is skewed toward digitally engaged and likely higher-income millennials, so the findings should not be generalized to less digitally connected or lower-income segments without further study. Sixth, although all constructs met the reliability and validity thresholds, the overall model fit was modest (SRMR = 0.117, above the 0.08 benchmark), contract transparency was effectively uncorrelated with MMQ preference in this sample, and the religiosity moderation, although statistically significant, was marginal ($p = 0.037$) and should be regarded as tentative pending replication. Future research could refine the structural model, re-examine whether contract transparency operates indirectly rather than as a direct determinant, and re-test the moderation in independent samples.

CONCLUSION

This study examines three main aspects of the Musyarakah Mutanaqishah contract for property financing in Indonesia: sharia compliance, innovation needs, and determinants of millennial preferences. First, the level of sharia compliance in the implementation of MMQ across the five major Islamic banks ranges from 72.4% to 88.6%, with an average of 80.2%. Critical issues were identified in the mechanism for determining ujrah, proportional risk distribution, and transparency of ownership transfer. Second, millennials demand MMQ innovation in three main dimensions: digital integration, contract transparency, and rental flexibility. Third, of the determinants tested, three were significant predictors of millennial preference for MMQ: rental flexibility had the strongest effect ($\beta = 0.590$), followed by sharia compliance ($\beta = 0.245$) and digital integration ($\beta = 0.190$); religiosity marginally moderated the compliance–preference relationship ($\beta = 0.185$, $p = 0.037$), whereas contract transparency ($\beta = –0.088$) and sharia finance education ($\beta = –0.047$) were not significant. These conclusions apply to urban, higher-income, and digitally engaged Muslim millennials in five major Indonesian cities rather than to the generation as a whole. The principal contribution of this study is to show that, for a long-term Islamic financing product, the practical flexibility of the contract matters more to millennials than sharia compliance or digital features, and to combine qualitative contract-compliance evidence with survey-based preference modelling within a single Integrative MMQ Innovation Framework an integration that the MMQ literature, which has tended to examine sharia compliance and consumer preference separately, has not previously offered.

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