

The AED 50m to AED 1bn Capital Stack

A Decision Framework for UAE Developers Choosing Between Senior Debt, Mezzanine and JV Equity

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Abstract

United Arab Emirates (UAE) real estate developers raising between AED 50 million and AED 1 billion face a financing decision that is frequently made by habit rather than by analysis: most default to senior bank debt and top up with whatever equity is available. This paper argues that the choice of capital structure is itself a value-creation lever, and that the optimal structure varies systematically with deal size, development stage, asset quality and sponsor objectives. Drawing on an indicative but internally consistent dataset calibrated to 2026 GCC market conditions, the study sets out the anatomy of the real estate capital stack across four instrument classes (senior secured debt, mezzanine, preferred equity and joint-venture common equity), grounds the analysis in established capital-structure theory, quantifies the relative cost and control implications of each instrument, and develops a decision framework segmented by deal size band. Blended weighted average cost of capital (WACC) is modelled across leverage and equity-return scenarios, and developer equity internal rate of return (IRR) is decomposed under debt-heavy, balanced and equity-heavy structures for three representative schemes. The analysis finds that smaller single-asset schemes are typically best served by a debt-led structure that preserves sponsor control, mid-sized portfolios benefit from a mezzanine layer that bridges the senior-to-equity gap, and only the largest portfolio-level raises justify the governance burden of syndicated senior, preferred equity and Shariah-compliant Sukuk tranches. A sensitivity analysis shows that sales price and construction cost dominate equity returns far more than financing margin, a finding with direct implications for how sponsors should prioritise negotiation effort. The paper also examines the perspective of each capital provider, the implications of refinancing and exit, and the structuring features specific to the UAE, including escrow regulation and intercreditor arrangements. It concludes with an implementation roadmap and a decision tree intended for practical use by founders, chief financial officers and heads of capital markets.

Keywords: Capital structure, joint-venture equity, mezzanine finance, preferred equity, real estate development, Sukuk, UAE, weighted average cost of capital

1. Introduction

The question of how to fund a real estate development in the United Arab Emirates is rarely framed as a strategic decision. In practice, the sequence is familiar. A sponsor identifies a plot or a portfolio, models a gross development value, approaches the relationship bank that financed the previous scheme, accepts whatever loan-to-cost the credit committee will approve, and then scrambles to fill the remaining gap with personal equity, partner equity or pre-sales. The capital structure that results is an accident of relationships and timing rather than the product of deliberate analysis. For schemes of modest size this may cost the sponsor relatively little. For schemes in the AED 50 million to AED 1 billion range, where the financing decision compounds

across a multi-year development cycle, the cost of a poorly chosen structure can erode a material share of the equity return.

This paper takes the opposite starting point. It treats the capital structure as a lever of value creation that sits alongside site selection, design efficiency and sales execution, and it argues that the right structure is knowable in advance if the sponsor is willing to analyse the trade-offs. The central trade-off is between cost and control. Senior debt is cheap but restrictive and limited in quantum; common equity is expensive but flexible and unlimited; and a family of instruments in between, principally mezzanine debt and preferred equity, allows a sponsor to tune the blend. The art of structuring is choosing the point on that spectrum that minimises the blended cost of capital for a given level of risk while preserving the control and flexibility the sponsor actually needs.

The analysis is deliberately practical. It is written for the founder, chief financial officer, managing director or head of capital markets who must make this decision under time pressure, and who is more interested in a defensible framework than in financial theory for its own sake. At the same time, the paper draws on the established academic literature on capital structure, because that literature offers genuine insight into why the trade-offs take the shape they do. The figures used throughout are indicative, constructed to be internally consistent and calibrated to conditions observable in the GCC market in early 2026, but they are not drawn from any single live transaction. Their purpose is to make the mechanics visible, not to predict the terms of any particular deal.

The paper proceeds as follows. Section 2 describes the UAE development finance landscape in 2026. Section 3 grounds the discussion in capital-structure theory. Section 4 sets out the anatomy of the capital stack. Section 5 develops the core decision framework segmented by deal size. Section 6 models the blended cost of capital. Section 7 examines the risk, control and security trade-offs. Section 8 addresses UAE-specific structuring considerations. Section 9 presents the perspective of each capital provider. Section 10 works through three indicative case studies. Section 11 presents a sensitivity analysis. Section 12 considers refinancing and exit. Section 13 offers an implementation roadmap, and Section 14 concludes. Two appendices provide the underlying assumptions and a glossary of terms.

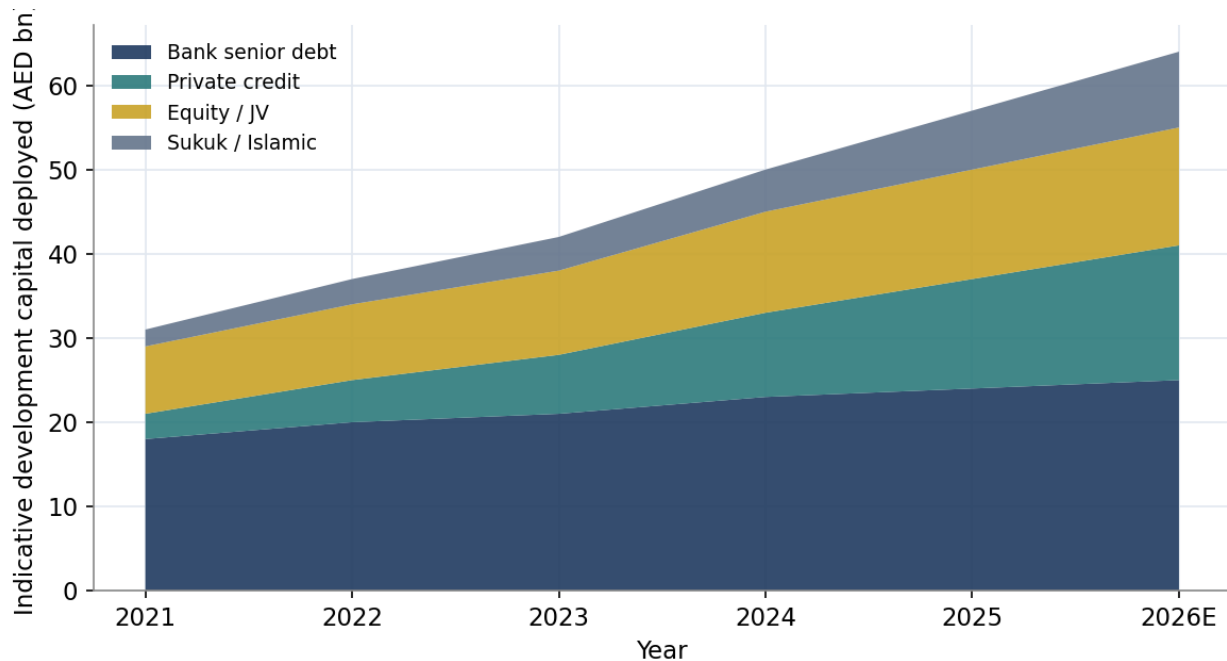
2. The UAE Development Finance Landscape in 2026

The financing environment facing UAE developers in 2026 is materially different from the one that prevailed in the previous cycle. Three structural shifts matter for the capital structure decision. The first is the partial retrenchment of conventional bank lending against development risk. Regional banks remain well capitalised and active, but tighter capital treatment of construction exposure, a sharper focus on completed and income-producing assets, and conservative loan-to-cost ceilings have left a financing gap precisely at the riskiest stage of the development cycle, namely the period between land acquisition and structural completion.

The second shift is the rapid emergence of private credit as a complement to, and in some cases a substitute for, bank debt. Direct-lending funds, family offices investing through credit structures and specialist real estate debt platforms have moved into the GCC in scale, offering senior and mezzanine facilities with greater speed and structuring flexibility than a traditional bank, albeit at a higher coupon. For a sponsor, this means that the senior tranche of the stack is no longer a single homogeneous product. It is a choice between cheaper but slower and more restrictive bank debt and more expensive but faster and more flexible private credit.

The third shift is the maturation of the Islamic finance market and the normalisation of Sukuk and Shariah-compliant private credit for mid-market real estate. Where Sukuk issuance was once the preserve of sovereigns and large corporates, structures are now being adapted for landbank and project financing at ticket sizes relevant to the AED 50 million to AED 1 billion developer. This widens the menu further and introduces a parallel cost-of-capital calculus for sponsors whose investor base, or whose own preference, favours compliant structures.

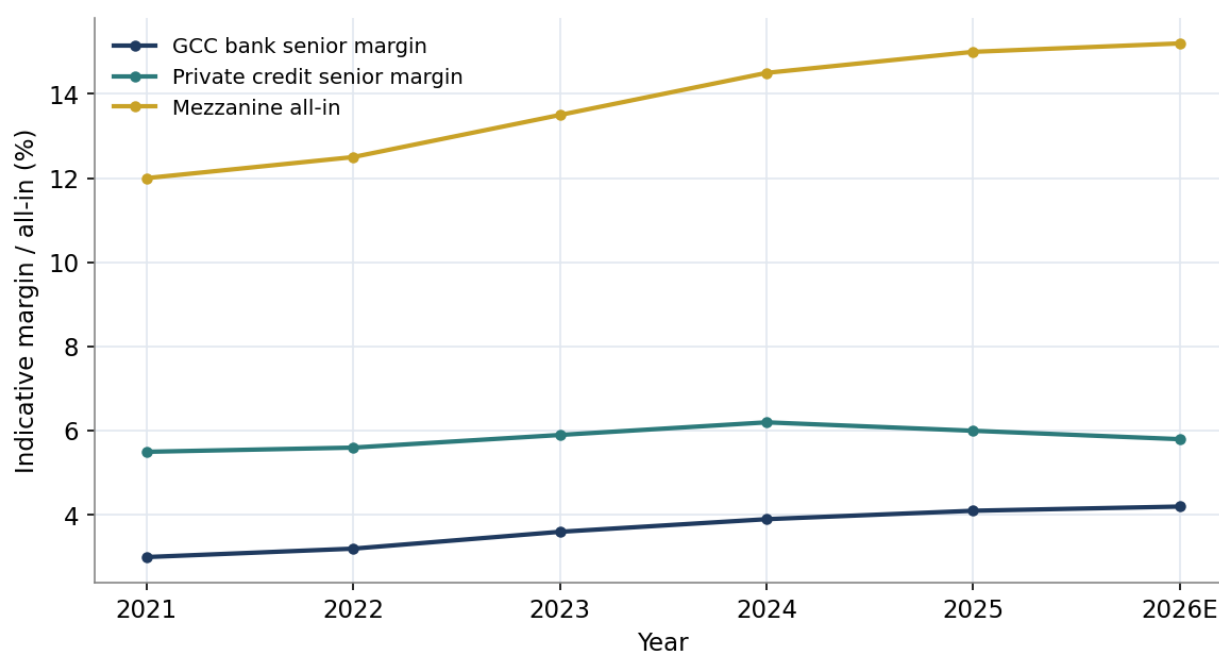
Figure 1. Indicative Composition of UAE Development Capital, 2021 to 2026



Indicative composition showing the rising share of private credit and Islamic instruments. Not official statistics.

Figure 1 illustrates the indicative shift in the composition of development capital over the cycle. The notable feature is not the growth of bank debt, which has expanded only modestly, but the rapid rise of private credit and the steady growth of Islamic instruments. The pool of capital available to developers has both grown and diversified, and a sponsor who restricts its search to the conventional bank market is now sampling a shrinking share of the available supply. This diversification is the single most important reason why structuring discipline has become more valuable: there are simply more levers to pull than there were a cycle ago.

Figure 2. Indicative Cost of Senior and Mezzanine Capital, 2021 to 2026



Indicative margins calibrated to GCC market commentary. Figures are indicative and not transaction-specific.

Figure 2 traces the indicative trajectory of pricing over the same period. Two features are worth noting. First, the spread between bank senior margins and private credit senior margins has compressed as banks have repriced risk upward and private credit has competed on price, narrowing the historic premium. Second, mezzanine all-in costs have remained structurally elevated, reflecting the genuine subordination risk that mezzanine capital absorbs. The practical implication is that the senior tranche decision has become more finely balanced, while the case for a mezzanine layer continues to rest on access and quantum rather than on price. Against this backdrop, the developer who treats the relationship bank as the only source of senior capital is leaving options unexplored.

3. Conceptual Foundations

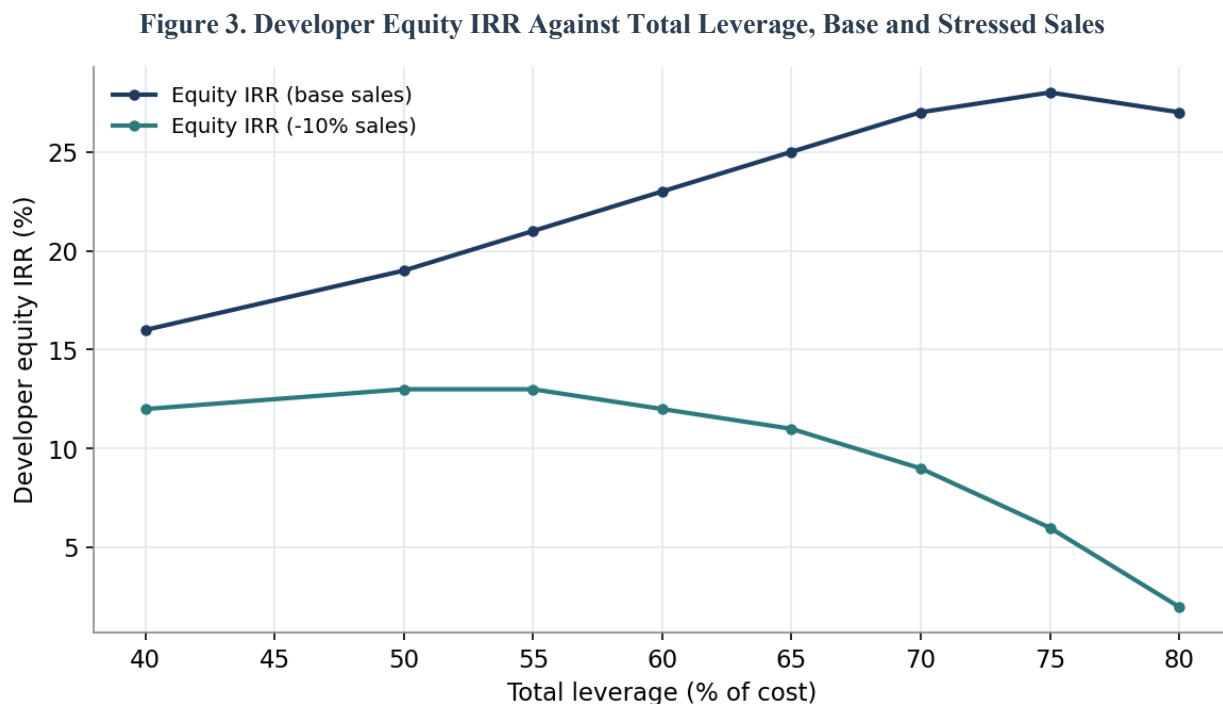
Although this paper is practical in intent, the trade-offs it describes are not arbitrary; they follow from a body of capital-structure theory that has direct application to real estate development. Three ideas from that literature are worth stating explicitly, because they explain why the framework in later sections takes the shape it does.

3.1 The irrelevance baseline and why it fails in practice

The starting point of modern capital-structure theory is the proposition that, in a world without taxes, bankruptcy costs or information asymmetry, the value of a project is independent of how it is financed. The size of the pie does not depend on how it is sliced. This baseline is useful precisely because the real world departs from it in ways that matter. Taxes, the costs of financial distress, the differing information held by sponsors and capital providers, and the control rights attached to each instrument all break the irrelevance result, and it is in those departures that the structuring opportunity lives. The developer who understands which frictions are operative in a given deal can structure to exploit them.

3.2 The trade-off between leverage benefits and distress costs

The trade-off theory holds that there is an interior optimum to leverage. Up to a point, adding debt is beneficial because debt is cheaper than equity and, in many jurisdictions, tax-advantaged. Beyond that point, the expected costs of financial distress, the risk that fixed obligations cannot be met if the project underperforms, rise faster than the benefit of cheaper capital, and additional leverage destroys value. Figure 3 makes this concrete by plotting developer equity IRR against total leverage under a base sales scenario and a stressed scenario. Under the base case, IRR rises with leverage up to a point and then plateaus; under the stressed case, IRR rises briefly and then falls sharply as fixed obligations overwhelm the diminished cash flow. The gap between the two curves at high leverage is the cost of distress made visible.



Indicative relationship demonstrating the interior optimum to leverage. Not a forecast.

3.3 The pecking order and the information advantage

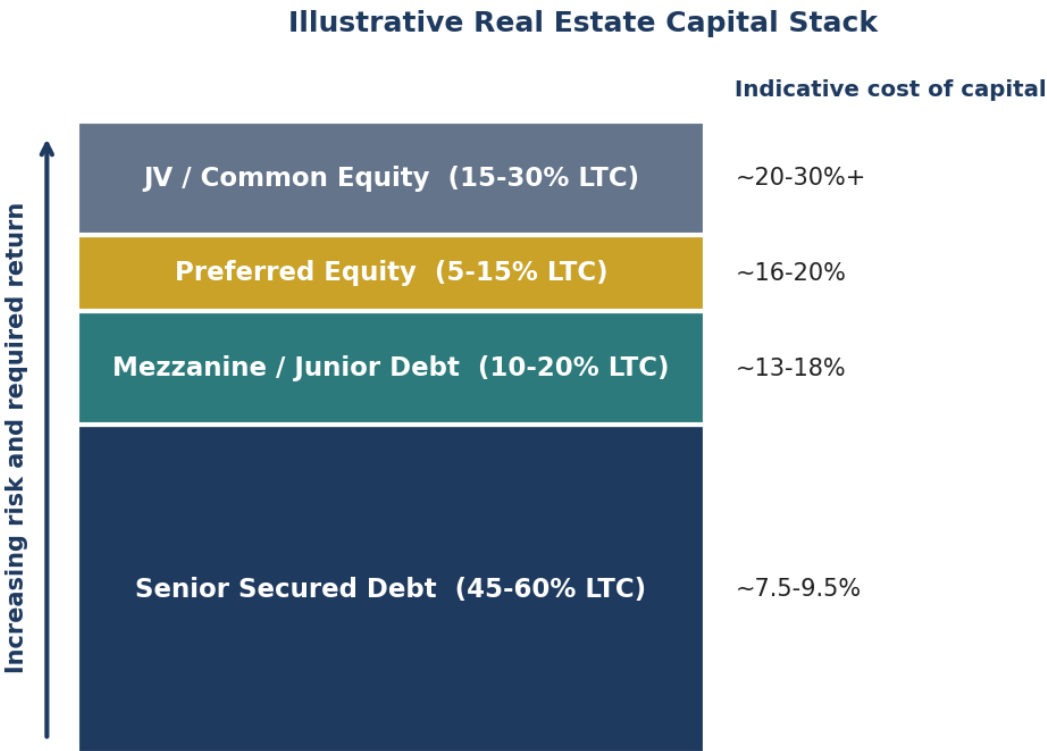
A third strand of theory, the pecking order, observes that sponsors tend to prefer internal funds first, then debt, and only lastly external equity, because raising external equity signals to the market that the sponsor may believe the equity to be richly valued. In real estate development the logic is slightly different but the ranking often survives: sponsors prefer to retain ownership and control, draw on debt that does not dilute, and issue common equity only when debt capacity is exhausted or when a partner brings more than capital. The framework in this paper is consistent with the pecking order at the smaller end of the size range, where control is paramount, and departs from it at the larger end, where the WACC benefit of a deliberately constructed multi-tranche structure outweighs the instinct to minimise external equity.

4. Anatomy of the Real Estate Capital Stack

The capital stack is the ordered set of claims against a development project, ranked by the priority in which they are repaid and, correspondingly, by the risk they bear and the return they require. At the base sits senior secured debt, which is repaid first and is secured against the asset; at the top sits common equity, which is repaid last and absorbs the first losses. Between these poles sit

mezzanine debt and preferred equity. Figure 4 presents the stack schematically, with indicative loan-to-cost shares and costs of capital.

Figure 4. Indicative Real Estate Capital Stack with Indicative Costs



4.1 Senior secured debt

Senior secured debt is the cheapest layer of the stack because it carries the least risk. It is repaid before all other claims and is secured by a first-ranking mortgage over the land and the development, often supported by an assignment of sales receivables, project accounts and insurances. In the UAE in 2026, senior facilities for development typically extend to between 45 and 60 percent of total cost, with the precise ceiling depending on the asset class, the sponsor track record and whether the facility is provided by a bank or a private credit fund. The indicative all-in cost ranges from roughly 7.5 percent for strong bank paper to around 9.5 percent for private credit senior. The trade-off the sponsor accepts in exchange for this low cost is a battery of covenants, security and control rights that constrain operational and financial flexibility. Senior lenders will typically require a first charge, a debt-service or interest-cover covenant, a loan-to-value ceiling tested periodically, restrictions on further indebtedness, and approval rights over material changes to the development plan.

4.2 Mezzanine debt

Mezzanine debt sits immediately above senior debt. It is subordinated to the senior lender, usually secured by a second-ranking charge or a share pledge rather than a first mortgage, and it bears materially higher risk because it absorbs losses before the senior tranche is impaired. Mezzanine typically funds a further 10 to 20 percent of cost, lifting total leverage toward 70 to 80 percent, and its indicative all-in cost in the current market sits in the 13 to 18 percent range, sometimes structured as a cash coupon plus a payment-in-kind element or an exit fee. The strategic value of mezzanine is that it allows a sponsor to increase leverage, and therefore reduce the equity cheque, without surrendering the ownership and control that issuing additional

common equity would require. The cost is twofold: a higher coupon than senior debt, and the need to negotiate an intercreditor agreement that governs the relationship between the senior and mezzanine lenders.

4.3 Preferred equity

Preferred equity is, in economic substance, a hybrid that sits between debt and common equity. It ranks behind all debt but ahead of common equity, and it typically carries a fixed preferred return, often in the 16 to 20 percent range, that must be satisfied before common equity receives any distribution. Preferred equity is attractive where a sponsor has exhausted prudent debt capacity but wishes to avoid diluting common ownership at an early, low-valuation stage. Unlike mezzanine debt, it does not usually carry a fixed maturity that can trigger default, which makes it more forgiving in a downside scenario, but this flexibility is paid for through its higher cost and, frequently, through conversion or control features that activate if the preferred return is not met.

4.4 Joint-venture and common equity

At the top of the stack sits common equity, the most expensive and most flexible form of capital. In UAE development, common equity is frequently raised through a joint venture in which a capital partner, typically a family office, an institutional investor or a strategic co-developer, subscribes alongside the sponsor. Common equity bears the first loss, has no contractual return, and is compensated only by the residual profit after all senior claims are met. Its required return therefore sits at the top of the range, commonly 20 to 30 percent or higher depending on perceived risk. The defining feature of common equity is shared control: a JV partner will expect governance rights, reserved matters, and a voice in major decisions, which is the true price of equity capital over and above its headline cost.

Table 1. Comparison of Capital Stack Instruments

Attribute	Senior debt	Mezzanine	Preferred equity	JV / common equity
Repayment priority	First	Second	Third	Last
Typical share of cost	45-60%	10-20%	5-15%	15-30%
Indicative cost	7.5-9.5%	13-18%	16-20%	20-30%+
Security	1st mortgage	2nd / share pledge	Equity ranking	Residual
Control impact	Covenants	Light covenants	Reserved matters	Shared governance
Maturity / default risk	Fixed	Fixed	Usually none	None
Dilution of sponsor	None	None	Minimal	Significant

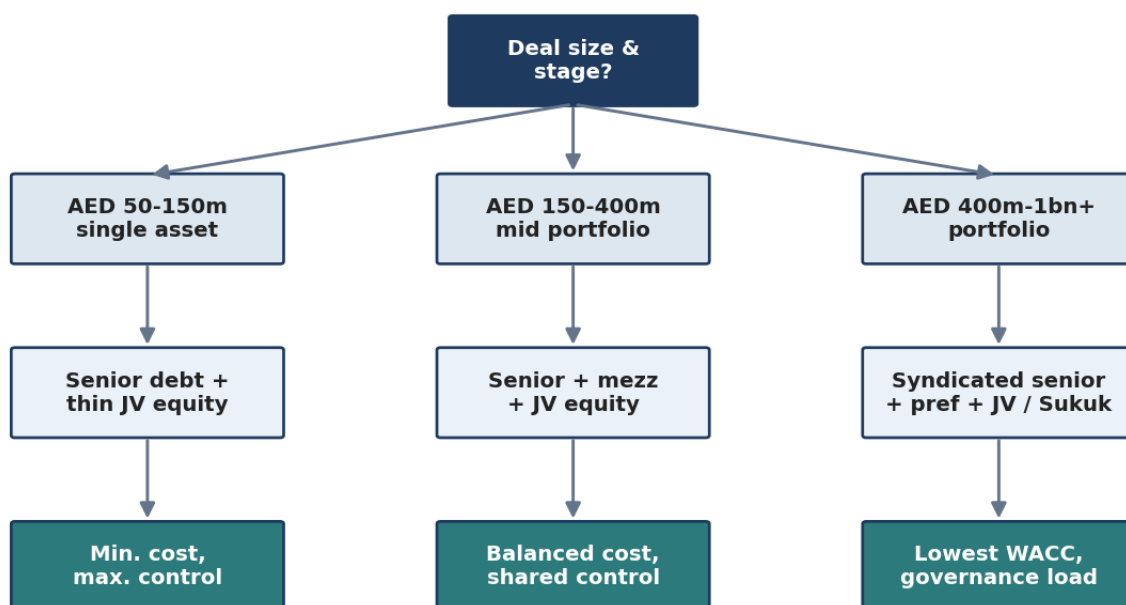
Indicative ranges calibrated to GCC conditions in early 2026. Not transaction-specific.

Table 1 summarises the four instruments across the attributes that matter most for the structuring decision. The pattern is monotonic: as a sponsor climbs the stack, cost rises, security weakens, and the impact on control and ownership intensifies, while maturity and refinancing risk fall away. The structuring problem is therefore one of constrained optimisation. The sponsor seeks to minimise blended cost subject to constraints on total leverage, on the control it is willing to cede, and on the appetite of each capital provider.

5. A Decision Framework by Deal Size and Stage

The premise of this section is that the optimal structure is not universal but conditional, and that deal size is the single most useful variable for segmenting the decision. Larger deals support more tranches because the absolute economics justify the legal, advisory and governance cost of a complex structure, and because larger raises naturally engage a broader and more institutional set of capital providers. Smaller deals reward simplicity. Figure 5 presents the framework as a decision tree.

Figure 5. Capital Structure Decision Tree by Deal Size



Indicative framework. Stage, asset quality and sponsor objectives modify the indicated default structure.

5.1 AED 50 million to AED 150 million: the single-asset scheme

At the smaller end of the range, the typical transaction is a single ground-up asset or a land acquisition with a defined development plan. Here the dominant consideration is the preservation of sponsor control and the avoidance of structuring complexity that the deal economics cannot absorb. The recommended default is a debt-led structure: a senior facility funding 50 to 60 percent of cost, with the balance provided by sponsor equity and, where available, a thin slice of JV equity from a single trusted partner. A mezzanine tranche is rarely justified at this size because the fixed costs of arranging and documenting subordinated debt are disproportionate to the quantum raised, and because a single capital partner can often be persuaded to take a larger common equity position more simply. The objective at this size is minimum cost and maximum control.

5.2 AED 150 million to AED 400 million: the mid-sized scheme or small portfolio

In the middle band, the transaction is often a larger single asset or a small portfolio of two to four projects. The equity cheque required to fund the gap above senior debt becomes large enough that funding it entirely with common equity is both expensive and dilutive. This is the band in which a

mezzanine layer earns its place. A structure combining senior debt at 50 to 55 percent of cost, a mezzanine tranche of 12 to 18 percent, and common or JV equity for the remainder allows the sponsor to reach total leverage of 70 percent or more while limiting the dilution of common ownership. The objective shifts to balanced cost with shared but bounded control, and the sponsor must now manage an intercreditor relationship between senior and mezzanine lenders.

5.3 AED 400 million to AED 1 billion and above: the portfolio raise

At the largest size, the transaction is typically a portfolio-level raise or a flagship development, and the absolute economics justify a fully articulated structure. Here the senior tranche may be syndicated across multiple banks or provided by an institutional private credit fund; a preferred equity layer can be introduced to deepen the stack without early common dilution; and a Shariah-compliant Sukuk tranche may be issued where the investor base or the sponsor preference favours it. The reward for this complexity is the lowest achievable blended cost of capital, because the structure can be tuned tranche by tranche to the cheapest available source at each level of risk. The price is a substantial governance and reporting burden, multiple sets of covenants, and the need for sophisticated treasury and investor-relations capability. The objective is the lowest WACC, accepting the governance load that comes with it.

Table 2. Default Capital Structure by Deal Size Band

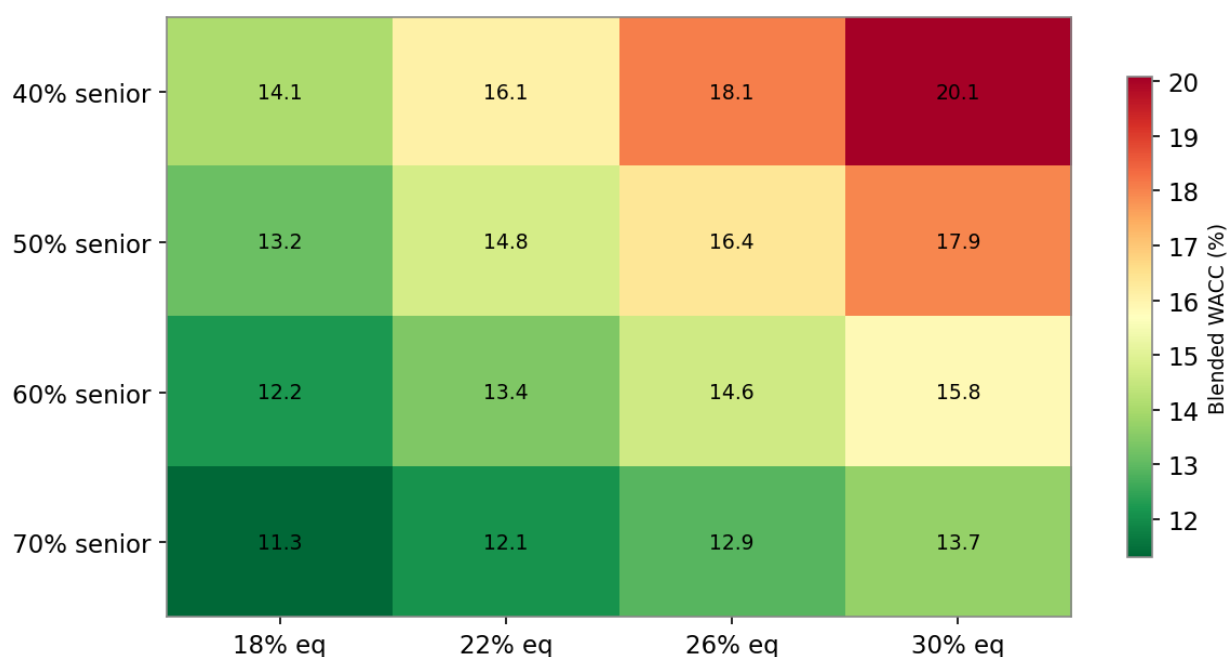
Deal size band	Typical senior	Mezzanine	Pref. equity	Common / JV	Primary objective
AED 50-150m	55-60%	0%	0%	40-45%	Control, simplicity
AED 150-400m	50-55%	12-18%	0-5%	25-35%	Balanced cost
AED 400m-1bn+	45-55%	10-15%	5-15%	20-30%	Lowest WACC

Shares expressed as percentage of total cost. Stage and asset quality shift these defaults. Indicative only.

6. Blended Cost of Capital Analysis

The blended weighted average cost of capital is the single number that captures the price of a given structure. It is the weighted average of the cost of each tranche, with weights equal to each tranche share of total funding. Minimising WACC, holding risk constant, increases the residual return available to common equity. Figure 6 shows how blended WACC responds to two key variables: the proportion of the stack funded by senior debt, and the return required by the common equity layer.

Figure 6. Blended WACC by Senior Leverage and Required Equity Return



WACC computed with mezzanine held at 10% of cost priced at 15.5%; senior at 8.8%. Indicative.

The heatmap makes a simple but important point visible. Increasing senior leverage reduces blended WACC, because senior debt is the cheapest tranche, but the effect is bounded by the maximum loan-to-cost that lenders will provide and by the increase in financial risk that higher leverage introduces. Moving across the columns, a higher required equity return raises WACC, which is why the cost of common equity, often treated as a soft or notional number by sponsors, in fact exerts real influence on the economics of the whole structure. The lowest WACC cells sit in the bottom-left of the grid, combining high senior leverage with a contained equity return, but reaching that corner requires both lender appetite for leverage and an equity partner willing to accept a moderate return, conditions that do not always coincide.

The practical lesson is that WACC minimisation is not the same as leverage maximisation. Beyond a certain point, additional leverage raises the cost of every tranche, as senior lenders demand wider margins for thinner cover and equity demands a higher return for the increased volatility of its residual claim. The optimal structure sits at the point where the marginal saving from a cheaper tranche is exactly offset by the marginal increase in the cost of the tranches around it. This is the trade-off theory of Section 3 expressed in the language of WACC.

Figure 7. Indicative Cost of Capital by Instrument

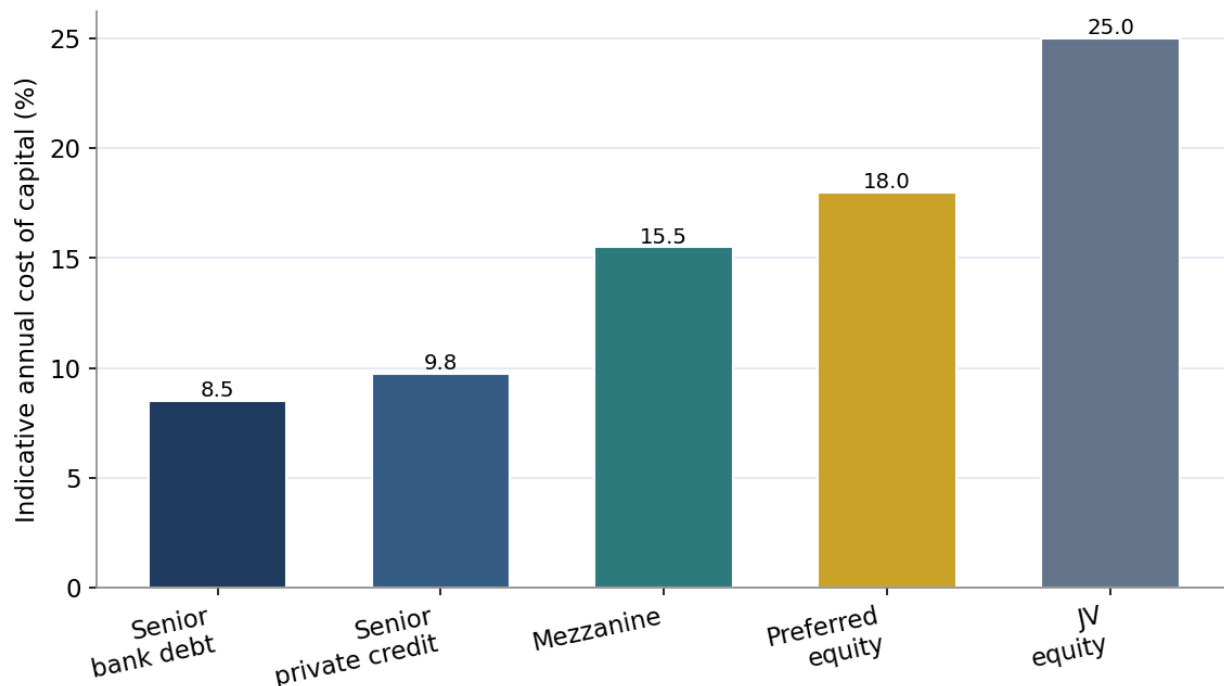


Figure 7 restates the cost hierarchy in absolute terms and underlines why the sequencing of the stack matters. The gap between senior bank debt at roughly 8.5 percent and JV equity at roughly 25 percent is the spread that structuring seeks to exploit. Every percentage point of the stack that can be moved from equity to appropriately priced debt or preferred capital reduces the blended cost, provided the additional leverage does not push the project past the point of prudent risk.

7. Risk, Control and Security Trade-offs

Cost is only one dimension of the structuring decision. The second, and frequently the decisive, dimension is control. Every tranche above pure sponsor equity comes with rights that constrain the sponsor, and the cumulative weight of those rights can determine whether a structure is workable in practice, regardless of its theoretical cost advantage.

Senior lenders impose financial covenants, security, cash sweep mechanisms and approval rights over major decisions, but they do not seek to participate in the upside or to direct the business. Mezzanine lenders impose a lighter covenant package but rank ahead of equity and may hold step-in or conversion rights that crystallise on default. Preferred equity holders typically negotiate reserved matters, a set of decisions that cannot be taken without their consent, and may hold rights that strengthen materially if the preferred return is not met on schedule. Common equity partners in a joint venture expect the most extensive governance: board representation, veto rights over budget, business plan and disposal decisions, and often pre-emption and exit provisions.

The sponsor must therefore weigh not only the headline cost of each tranche but the cumulative governance load of the structure as a whole. A structure that is marginally cheaper on a WACC basis but that hands a capital partner effective control over development decisions may be worse, in practical terms, than a slightly more expensive structure that leaves the sponsor free to execute. This is why the framework in Section 5 weights control so heavily at the smaller end of the size range, where a single misaligned partner can paralyse a scheme, and relaxes that weighting at the

larger end, where institutional capital providers are more accustomed to standardised, bounded governance arrangements.

Security interacts with control. The more security a sponsor grants, the less flexibility it retains to refinance, to bring in additional capital, or to restructure if the scheme underperforms. A first mortgage to a senior lender is unavoidable, but layering a second charge, a share pledge and an equity ranking on top of it can leave the sponsor with little room to manoeuvre in a downside. Prudent structuring preserves some unencumbered flexibility for the scenarios in which it is most needed.

8. Structuring Considerations Specific to the UAE

8.1 Escrow regulation and project accounts

Off-plan development in the principal UAE markets is governed by escrow regimes that require buyer payments to be deposited into a regulated project account and released against construction milestones. This regulation, designed to protect purchasers, has direct consequences for the capital stack. Sales receivables are partially ring-fenced, which affects the security a senior lender can take over them and the timing of cash available to service debt. A structure that assumes free access to pre-sales cash to fund construction or service interest must be tested against the escrow release schedule, and the financing plan should be built around the cash that is actually available rather than the cash that is notionally generated.

8.2 Shariah-compliant structures

Shariah-compliant instruments are no longer a niche consideration for UAE developers. Sukuk structures, commonly based on Ijara, Murabaha or Istisna arrangements, can replicate much of the economic function of conventional senior and mezzanine debt while satisfying the requirements of a compliant investor base. For a sponsor whose equity partners or whose own mandate favours compliant capital, a parallel Sukuk tranche can widen the available pool of capital and, in some market conditions, price competitively with conventional debt. The structuring cost is higher and the documentation more specialised, which is why Sukuk tends to appear in the larger size bands where the quantum justifies the effort.

8.3 Intercreditor arrangements

Any structure that combines senior and subordinated debt requires an intercreditor agreement that defines the ranking of claims, the circumstances in which the subordinated lender may take enforcement action, and the allocation of recoveries in a default. Sponsors frequently underestimate the time and negotiation that an intercreditor agreement requires, and a structure that looks clean on a spreadsheet can stall for weeks while senior and mezzanine lenders negotiate their relative rights. The framework in this paper treats the intercreditor burden as a real cost of the more complex structures, and it is one reason simpler structures are preferred where the size of the deal does not demand otherwise.

8.4 Currency, rate and foreign-capital considerations

The dirham peg to the United States dollar removes much of the currency risk that complicates development finance in other emerging markets, and it means that dollar-denominated capital from international private credit funds and family offices can be deployed without a material hedging cost. This is a structural advantage of the UAE market and one reason the pool of available capital is as deep as it is. At the same time, the peg ties domestic rates closely to the

dollar rate cycle, so the cost of the floating-rate senior tranche moves with global monetary conditions rather than local ones, a factor that should be reflected in the stress scenarios applied to any structure.

9. The Capital Provider Perspective

A structure that the sponsor finds attractive will only close if each capital provider also finds its tranche attractive on a risk-adjusted basis. Understanding what each provider underwrites is therefore part of designing a fundable structure, not a separate exercise.

9.1 What the senior lender underwrites

The senior lender underwrites the recovery of principal in a downside, not the upside of the scheme. Its analysis centres on the loan-to-value and loan-to-cost ratios, the quality and enforceability of its security, the credibility of the sales and cost assumptions, and the sponsor track record. A senior lender will accept a lower return precisely because it expects to be repaid in almost all scenarios, and it prices and structures to protect that expectation. The implication for the sponsor is that the senior tranche is won by demonstrating downside protection, conservative cost contingency, realistic sales assumptions and clean security, rather than by selling the upside.

9.2 What the mezzanine and preferred provider underwrites

The provider of mezzanine or preferred capital underwrites a middle risk: it expects to be repaid in the base case and most moderate downsides, but it absorbs loss before the senior lender in a severe downside. It is compensated for this with a higher fixed return and, often, with an equity-like kicker or an exit fee. This provider scrutinises the equity cushion beneath it, the headroom between projected value and the combined senior and mezzanine claim, and the sponsor incentive to complete. A thin equity cushion makes the mezzanine or preferred tranche harder and more expensive to place.

9.3 What the equity partner underwrites

The common equity partner underwrites the full risk and the full upside of the scheme. It is the residual claimant and therefore cares most about the absolute return, the sponsor alignment, and the governance rights that protect its capital. An equity partner will often accept a lower contractual protection in exchange for a larger share of the upside and a seat at the table. For the sponsor, attracting equity is as much about demonstrating alignment, skin in the game and a credible execution capability as it is about the projected return, because the equity partner is betting on the sponsor as much as on the asset.

10. Indicative Case Studies

To make the framework concrete, this section works through three indicative schemes, one in each size band. The figures are synthetic and constructed for analytical clarity; they are not drawn from any specific transaction. Each case applies the default structure from Section 5 and reports the resulting developer equity IRR.

10.1 Case A: AED 80 million single residential asset

Case A is a single residential building with total cost of AED 80 million and a projected gross development value that supports a healthy margin. Applying the smaller-band default, the sponsor funds 58 percent with senior debt, contributes 30 percent as its own equity, and brings a

single family-office partner for the remaining 12 percent as common equity. There is no mezzanine layer. The structure is simple, the sponsor retains clear control with only light governance rights ceded to the partner, and the high senior leverage relative to the modest equity base produces a strong equity IRR. The trade-off is that the sponsor carries concentrated risk: with a thin equity cushion, a downside in sales price or pace falls heavily on the equity.

Table 3. Case A Sources and Uses, AED 80m Single Asset

Sources	AED m	Share	Uses	AED m
Senior debt	46.4	58%	Land	22.0
Sponsor equity	24.0	30%	Construction	44.0
JV common equity	9.6	12%	Soft costs and finance	11.0
Total sources	80.0	100%	Contingency	3.0

Uses total AED 80.0m. Figures rounded.

10.2 Case B: AED 480 million mixed-use scheme

Case B is a mixed-use scheme with total cost of AED 480 million. The sponsor adopts the balanced structure: senior debt at 52 percent, a mezzanine tranche at 15 percent, and the remaining 33 percent as common and JV equity. The mezzanine layer allows the sponsor to limit the common equity cheque, containing dilution while reaching total leverage of 67 percent. The cost is an intercreditor negotiation and a mezzanine coupon that consumes part of the project cash flow during construction. The equity IRR is lower than Case A because leverage is more conservative relative to the equity base, but the risk is better distributed and the structure is more resilient to a moderate downside. Figure 8 shows the uses of funds for this scheme.

Figure 8. Indicative Uses of Funds, AED 480m Mixed-Use Scheme

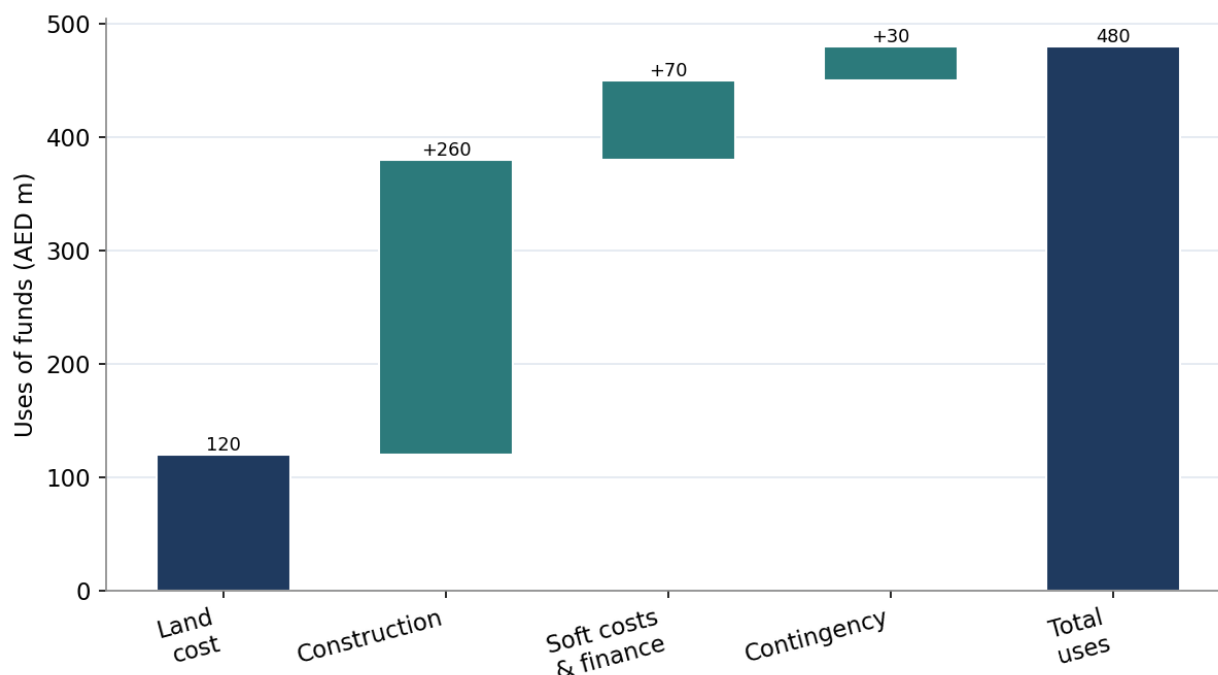


Table 4. Case B Sources and Uses, AED 480m Mixed-Use

Sources	AED m	Share	Uses	AED m
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Senior debt	249.6	52%	Land	120.0
Mezzanine	72.0	15%	Construction	260.0
Common and JV equity	158.4	33%	Soft costs and finance	70.0
Total sources	480.0	100%	Contingency	30.0

Uses total AED 480.0m. Figures rounded.

10.3 Case C: AED 750 million portfolio raise

Case C is a portfolio raise of AED 750 million across three projects. The sponsor implements the full structure: a syndicated senior facility at 50 percent, a mezzanine tranche at 12 percent, a preferred equity layer at 10 percent, and common and JV equity for the remaining 28 percent, with a portion of the senior tranche issued as a Shariah-compliant Sukuk to reach a compliant investor pool. The structure achieves the lowest blended WACC of the three cases, but it requires a treasury and investor-relations function capable of managing multiple capital providers, several covenant packages, and an intercreditor and inter-tranche framework. The equity IRR is the most stable of the three, reflecting the deliberate, diversified construction of the stack.

Table 5. Case C Capital Structure, AED 750m Portfolio

Tranche	AED m	Share	Indicative cost	Repayment rank
Senior (incl. Sukuk)	375.0	50%	8.6%	First
Mezzanine	90.0	12%	15.0%	Second
Preferred equity	75.0	10%	17.5%	Third
Common and JV equity	210.0	28%	24.0%	Residual
Total	750.0	100%	12.0% WACC	

Blended WACC computed from the tranche shares and costs shown. Not transaction-specific.

Figure 9. Developer Equity IRR by Structure and Deal Size



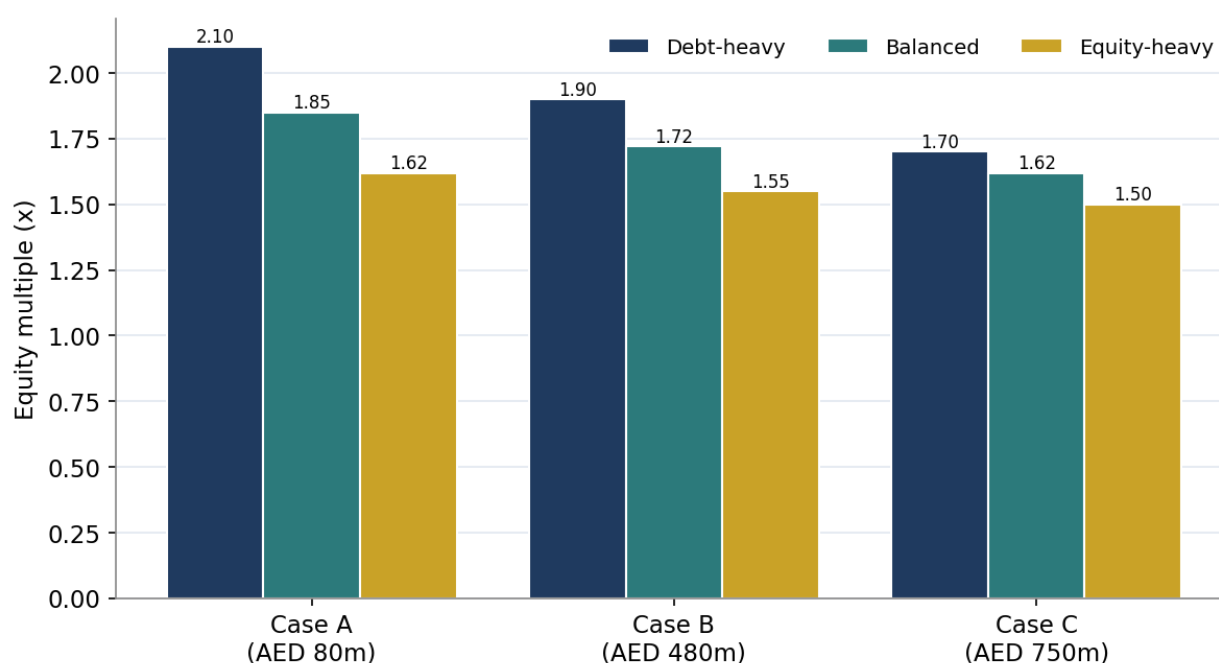
Synthetic figures for analytical comparison. Debt-heavy, balanced and equity-heavy denote rising equity share. Not a forecast.

Figure 9 compares the developer equity IRR for each case under debt-heavy, balanced and equity-heavy versions of the structure. The pattern is consistent across all three sizes: a debt-heavier structure raises the headline equity IRR by concentrating the return on a smaller equity base, but it does so by increasing risk, since the same leverage that amplifies the upside amplifies the downside. The choice between the columns is therefore a choice about risk appetite, not simply a search for the highest number. A sponsor with conviction in the sales assumptions and a tolerance for volatility may prefer the debt-heavy column; a sponsor managing third-party capital or operating in an uncertain market may rationally accept a lower IRR for a more resilient structure.

10.4 Cross-case comparison and the equity multiple

Comparing the three cases side by side draws out a pattern that the individual analyses obscure. As deal size increases, the achievable equity multiple compresses, because the larger, more deliberately constructed structures deploy a greater share of contingent and lower-cost capital and therefore spread the upside across a wider base. The smallest scheme, Case A, produces the highest equity multiple in its debt-heavy form, but it does so on a small absolute equity base and with the least resilience to a downside. The largest scheme, Case C, produces the most modest multiple but the most stable one, and on the largest absolute equity quantum. Figure 11 shows the equity multiple for each case under the three structural variants.

Figure 11. Equity Multiple by Case and Structure



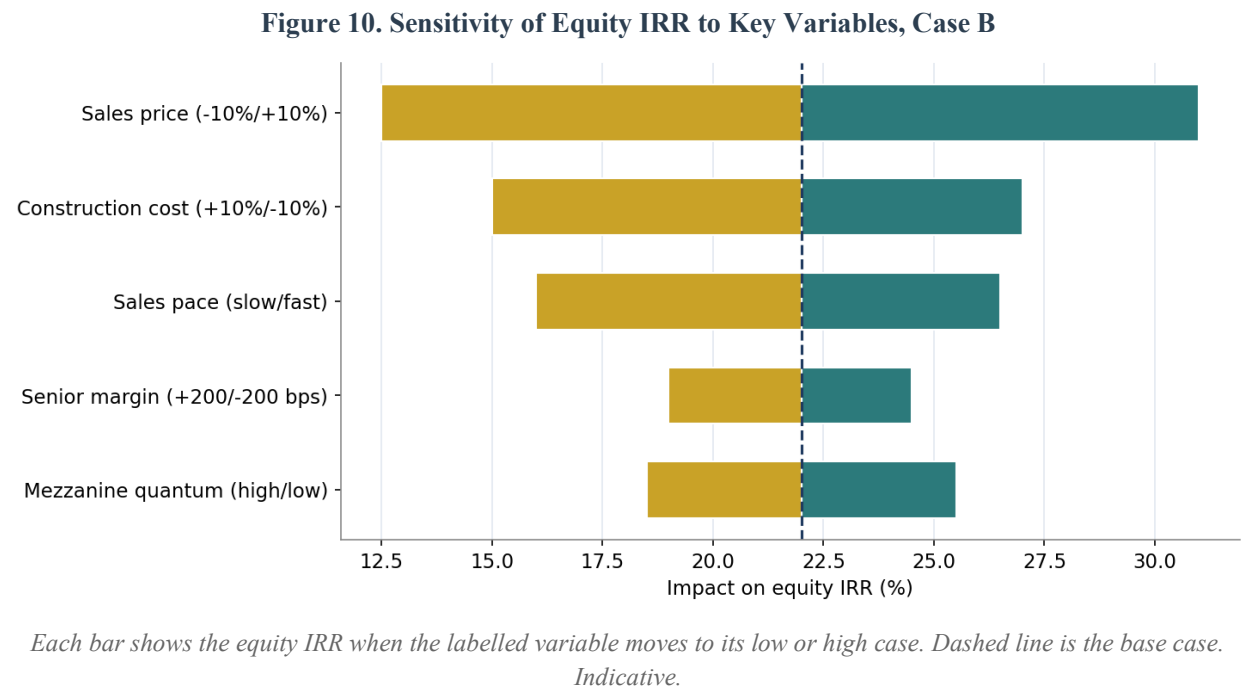
Synthetic figures for analytical comparison. Equity multiple is total equity distributions divided by equity invested. Not a forecast.

The compression of the multiple with scale is not a defect of the larger structures; it is the visible price of their lower risk. A sponsor choosing between a small, high-multiple, high-risk scheme and a large, lower-multiple, lower-risk scheme is making a portfolio decision, not merely a financing decision, and the right answer depends on the sponsor balance sheet, its tolerance for

concentration, and the capital it manages on behalf of others. The framework does not dictate that choice, but it makes the trade-off explicit, which is the first condition for making it well.

11. Sensitivity and Scenario Analysis

A capital structure that performs well in the base case may perform poorly under stress, and the purpose of sensitivity analysis is to identify which variables actually drive the equity return. Figure 10 presents a tornado analysis for the mid-sized Case B, varying each key input across a plausible range while holding the others at their base values.



The analysis yields a finding that should reshape how sponsors allocate their negotiating effort. The two variables with the largest impact on equity IRR are the realised sales price and the construction cost. Financing variables, the senior margin and the quantum of mezzanine, matter, but their influence is second-order by comparison. A sponsor who spends weeks negotiating fifty basis points off the senior margin while accepting loose control over construction procurement or sales pricing is optimising the wrong variable. This does not mean financing terms are unimportant; it means they should be negotiated efficiently and then the sponsor energy should be directed to the operational levers, sales and cost, that dominate the return.

Table 6. Scenario Matrix for Case B Equity IRR

Scenario	Sales price	Construction cost	Equity IRR
Upside	+10%	-5%	31.0%
Base	Base	Base	22.0%
Mild stress	-5%	+5%	16.5%
Severe stress	-10%	+10%	9.5%

Indicative scenarios holding the financing structure constant. Not a forecast.

A second observation from the scenario work is that the resilience of a structure under stress depends on the seniority of the obligations it carries. A debt-heavy structure with significant fixed

mezzanine coupons can move from comfortable to distressed quickly if sales slow, because the fixed obligations continue to accrue regardless of revenue. A structure with a larger preferred or common equity component, whose returns are contingent on performance, flexes more gracefully in a downside because a larger share of the capital cost is contingent rather than fixed. This is the deeper reason why the framework recommends contingent capital, preferred and common equity, as a larger share of the stack for sponsors and markets where downside risk is elevated.

12. International Comparison: UAE and United Kingdom Structuring

Because many UAE sponsors also operate in, or raise capital from, the United Kingdom, it is useful to compare the two markets. The United Kingdom has a deeper and more mature development debt market, in which a layered structure of senior debt, stretched senior and mezzanine is standard, and in which specialist development lenders compete actively for business. The all-in cost of UK development debt has, through the recent rate cycle, frequently exceeded comparable UAE pricing, reflecting the higher sterling rate environment, while the structuring conventions are broadly similar.

The UAE market offers two structural advantages that the framework should reflect. The first is the dirham peg to the United States dollar, which removes currency risk for dollar-denominated capital and widens the pool of international capital that can be deployed without a hedging cost. The second is the absence of a tax on development income in the principal jurisdictions, which alters the trade-off theory of Section 3 by removing the tax shield that makes debt advantageous in many other markets. In the UAE, the case for debt rests on its lower required return and its non-dilutive character rather than on a tax benefit, a subtle but important distinction when calibrating the optimal leverage.

Enforcement and security regimes also differ. The United Kingdom has a long-established body of law and practice governing the enforcement of security and the ranking of claims, which gives lenders a high degree of predictability. The UAE regimes have matured rapidly and, in the principal financial centres, offer lenders robust frameworks, but the conventions are younger and a lender new to the market will price some uncertainty into its terms. A sponsor raising from international lenders should anticipate this and be prepared to evidence the enforceability of the proposed security.

The broader lesson is that the framework in this paper is portable across markets but its calibration is not. The hierarchy of instruments, the cost-versus-control trade-off and the deal-size segmentation hold in both markets, but the specific cost figures, leverage ceilings and tax treatments must be recalibrated to local conditions. A sponsor operating across both markets should maintain two calibrations of the same framework rather than assuming the UAE figures travel unchanged to the United Kingdom or the reverse.

13. Common Structuring Errors and How to Avoid Them

In practice, a recognisable set of errors recurs across development financings. Each follows from treating the capital structure as an afterthought rather than as a designed outcome, and each is avoidable with the discipline the framework encourages.

- **Defaulting to the relationship bank.** A sponsor that approaches only its relationship bank samples a shrinking share of available capital and forgoes the competitive tension that disciplines pricing. The remedy is to approach senior providers in parallel.
- **Over-leveraging into fixed obligations.** Maximising leverage to lift the headline equity return loads the structure with fixed obligations that continue to accrue if sales slow, converting a comfortable position into a distressed one. The remedy is to size leverage to the stressed cash flow, not the base case.
- **Ignoring escrow cash timing.** A financing plan built on notionally generated sales cash rather than on escrow-released cash will face a liquidity gap precisely when construction funding is most needed. The remedy is to model the escrow release schedule explicitly.
- **Underestimating intercreditor time.** Sponsors routinely underestimate the time required to negotiate the intercreditor agreement between senior and mezzanine lenders, and a structure that is sound on paper stalls at closing. The remedy is to begin the intercreditor negotiation early and treat it as a critical-path item.
- **Negotiating the wrong variable.** Energy spent extracting marginal basis points from the senior margin while sales pricing and construction cost are loosely controlled optimises the wrong variable, as the sensitivity analysis demonstrates. The remedy is to direct effort to the operational drivers.
- **No designed refinancing or exit path.** A structure designed without a refinancing or exit path leaves expensive construction-phase capital in place long after the risk that justified it has fallen away. The remedy is to design the exit at the outset.

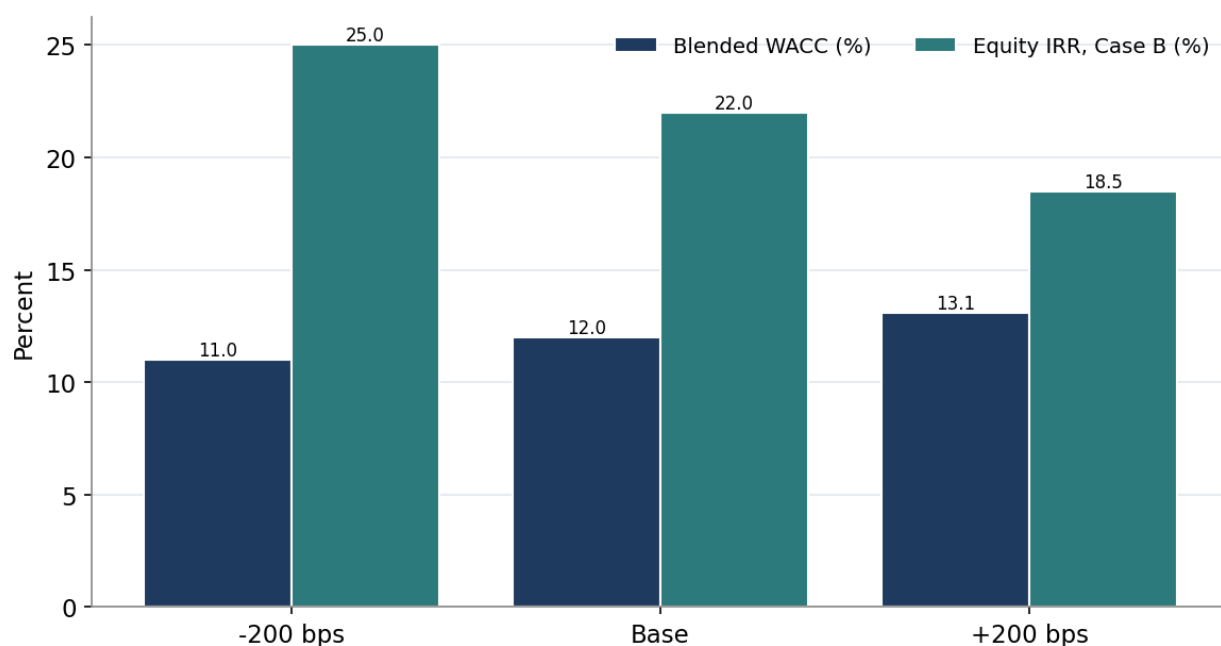
These errors share a common root: the treatment of financing as a box to be ticked once the development decision has been made, rather than as an integral part of the development decision itself. The sponsor that internalises the framework treats the two decisions as one, and in doing so avoids the errors more or less automatically.

It is worth adding that the cost of these errors is asymmetric. A well-structured deal that performs as expected delivers a modest, predictable advantage over a poorly structured one. But a poorly structured deal that meets a downside can fail outright, wiping out the equity, where a well-structured deal merely underperforms. The value of structuring discipline is therefore concentrated in the downside, which is precisely the scenario that optimistic sponsors are most inclined to discount.

14. Macro Sensitivities: Rates, Liquidity and the Cycle

The structure chosen at the outset is exposed to macroeconomic conditions that the sponsor does not control. The most important of these is the path of interest rates, which, because of the dirham peg, follows the United States dollar cycle rather than local conditions. A floating-rate senior tranche transmits rate movements directly into the cost of the largest part of the stack, and a structure that is comfortable at the prevailing rate can become strained if rates rise materially during the development period. Figure 12 illustrates the effect of a plus or minus two hundred basis point movement in rates on the blended WACC and on the equity IRR of the mid-sized case.

Figure 12. Effect of a Rate Movement on WACC and Equity IRR, Case B



Indicative sensitivity to a parallel movement in the floating senior rate. Not a forecast.

The figure shows that a rate movement of two hundred basis points shifts the equity IRR by several percentage points, a material but not catastrophic effect for a moderately leveraged structure. For a highly leveraged structure the same movement would bite harder, which is a further argument for sizing leverage against stressed conditions. A sponsor can mitigate rate exposure by fixing or hedging part of the senior tranche, by accelerating the development and sales timetable to shorten the exposure window, or by building additional headroom into the debt-service cover at the outset.

Liquidity conditions matter as much as the level of rates. The availability of refinancing capital at the point of stabilisation is not guaranteed, and a structure that depends on a smooth refinancing into stabilised debt carries refinancing risk if the credit market tightens at the wrong moment. The prudent response is to avoid designing a structure that must refinance at a fixed date regardless of conditions, and instead to build in tenor and flexibility that allow the sponsor to wait out a temporary closure of the refinancing market. Positioning for the cycle, rather than assuming the cycle will cooperate, is the mark of a structure designed by a sponsor who has lived through more than one cycle.

15. Refinancing and Exit

The capital structure chosen at the outset is not permanent; it evolves across the development cycle, and a well-designed structure anticipates its own refinancing. During construction, the stack is weighted toward development risk and therefore toward more expensive capital. On completion and stabilisation, the asset becomes lower risk, and the structure can and should be refinanced into cheaper, longer-dated capital, releasing the more expensive construction-phase tranches and returning capital to equity. A sponsor who designs the initial structure without a refinancing path can find the expensive construction-phase coupons persisting long after the risk that justified them has fallen away.

For schemes intended for sale rather than for hold, the exit is the sale itself, and the structure should be designed so that the waterfall of repayment on sale is clean and predictable. Senior debt is repaid first, then mezzanine, then preferred equity to its accrued return, and finally common equity takes the residual. The order is straightforward in principle but can become contentious if the documentation is ambiguous about accrued returns, exit fees and the treatment of any shortfall. Clarity in the initial documentation about the exit waterfall is one of the least glamorous and most valuable features of a well-structured deal.

For schemes intended for hold and income, the refinancing into stabilised, income-producing debt is the moment at which the equity return is crystallised, even though no sale occurs, because the refinancing can return a large part of the original equity while the asset is retained. This dynamic, sometimes described as a capital event, is a central feature of the buy-and-hold development model and should be modelled explicitly when the initial structure is designed.

16. Implementation Roadmap

Translating the framework into a live financing process involves a disciplined sequence. The following roadmap sets out the practical steps a sponsor should follow once a scheme has been identified and a development appraisal prepared.

1. Establish the base appraisal and the funding requirement, expressed as total cost and a sources-and-uses statement, before approaching any capital provider. The structure cannot be designed without a reliable view of the quantum and timing of the cash required.
2. Determine the deal size band and read the default structure from the framework in Section 5, treating it as a starting point to be modified for stage, asset quality and sponsor objectives rather than as a fixed prescription.
3. Test the default structure against the escrow release schedule and the project cash-flow profile, to confirm that debt service and any fixed mezzanine obligations can be met from the cash actually available during construction.
4. Run the WACC and equity IRR analysis across debt-heavy, balanced and equity-heavy variants, and select the variant that matches the sponsor risk appetite rather than simply the variant with the highest headline IRR.
5. Approach senior providers, both banks and private credit funds, in parallel to create competitive tension on the senior tranche, which is the largest and therefore the most valuable to price keenly.
6. Where the structure includes subordinated tranches, begin the intercreditor negotiation early, since it is frequently the critical-path item that delays closing.
7. Prioritise negotiating effort according to the sensitivity analysis: secure firm control over the operational drivers, sales price and construction cost, before exhausting energy on marginal improvements to financing margins.
8. Design the refinancing and exit path at the outset, so that expensive construction-phase capital can be released once the asset is stabilised and the equity return crystallised.

A sponsor who follows this sequence will arrive at a structure that is not merely fundable but deliberately optimised, with a clear understanding of why each tranche is present and what it costs in both money and control.

17. Conclusion

The capital structure of a UAE real estate development is too important to be left to habit. This paper has argued that the choice between senior debt, mezzanine, preferred equity and joint-venture common equity is a value-creation decision in its own right, and that the optimal structure varies systematically with deal size, stage and sponsor objectives. Smaller single-asset schemes reward a simple, debt-led structure that preserves control. Mid-sized schemes justify a mezzanine layer that bridges the senior-to-equity gap and contains dilution. Only the largest portfolio raises warrant the full, multi-tranche structure, including preferred equity and Shariah-compliant Sukuk, whose lower blended cost is paid for with a heavier governance burden.

The analysis has also shown that the search for the lowest cost of capital is not the same as the search for maximum leverage, and that the variables which most influence the equity return are operational, sales price and construction cost, rather than financial. The sponsor who internalises these two lessons, designing the structure to fit the deal and directing effort to the drivers that matter, will consistently extract more value from the same underlying asset than the sponsor who defaults to the relationship bank and fills the gap with whatever equity is to hand. In a market where capital has become both more plentiful and more varied, that discipline is a genuine and durable source of advantage. The frameworks, tables and figures in this paper are offered as a starting point for that discipline, to be adapted to the specifics of each scheme and each sponsor rather than applied mechanically.

18. Limitations and Directions for Further Research

This paper is deliberately framework-oriented and relies on indicative data, and its conclusions should be read with that in mind. The figures are internally consistent and calibrated to observable conditions, but they are not empirical estimates drawn from a transaction dataset, and the optimal structures the framework recommends are directional rather than precise. The analysis also uses a simplified return model rather than a full month-by-month development cash-flow waterfall, which would be required to price the structures precisely for a live transaction. Tax treatment, which is light in the principal UAE jurisdictions, is not modelled in detail and would need to be incorporated for cross-border structures.

Several directions for further research follow naturally. An empirical calibration of the cost and leverage figures against a dataset of completed UAE financings would sharpen the framework considerably. A dedicated study of Sukuk pricing relative to conventional debt across market conditions would clarify when the compliant route is genuinely cost-competitive. And an analysis of how these structures have behaved through a genuine downturn, rather than under hypothetical stress, would test the resilience claims that the framework makes for contingent-capital-heavy structures. Each of these would convert the framework from a reasoned argument into an evidence-based tool, and each is a natural subject for a subsequent paper in this series.

Appendix A. Base Case Assumptions

The following assumptions underpin the indicative analysis throughout the paper. They are provided for transparency and to allow the reader to reconstruct the logic of the figures. They are not market quotations.

Table 7. Base Case Assumptions

Parameter	Value	Parameter	Value
Senior debt cost	8.6%	Mezzanine cost	15.5%
Preferred equity cost	17.5%	Common equity required return	24.0%
Senior loan-to-cost	50-58%	Mezzanine loan-to-cost	12-15%
Development period	30-42 months	Sales period	24-48 months
Construction contingency	5-7%	Base development margin	18-25%
Currency	AED (USD peg)	Escrow	Milestone release

Indicative parameters used to generate the figures and case studies. Not transaction-specific.

Appendix B. Glossary of Terms

Table 8. Glossary of Key Terms

Term	Definition
Capital stack	The ordered set of claims against a project, ranked by repayment priority.
Senior debt	First-ranking secured borrowing, repaid before all other claims.
Mezzanine	Subordinated debt ranking between senior debt and equity.
Preferred equity	Equity ranking ahead of common equity, carrying a fixed preferred return.
Common / JV equity	Residual ownership capital bearing first loss and the full upside.
Loan-to-cost (LTC)	A facility expressed as a percentage of total project cost.
WACC	Weighted average cost of capital across all tranches of the stack.
Intercreditor agreement	Contract governing ranking and enforcement between lenders.
Sukuk	Shariah-compliant instrument replicating the economics of debt.
Escrow	Regulated project account holding buyer payments, released by milestone.

Definitions provided for reference.

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