Sale-and-Leaseback in GCC Real Estate

Unlocking Trapped Capital Without Losing Operational Control

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Abstract

Businesses across the Gulf Cooperation Council (GCC) hold substantial capital trapped in the real estate they own and occupy, from corporate headquarters and industrial facilities to retail showrooms and developer-held units. That capital earns only the implicit return of avoided rent, typically far below the return the business could earn by redeploying it into its core operations or new investment. Sale-and-leaseback (SLB), the simultaneous sale of an owned property and its lease-back to the seller, releases this trapped capital while allowing the business to continue occupying and operating the asset. This paper examines SLB as a corporate finance tool for GCC developers, owner-occupiers and family businesses, and develops a framework for deciding when, and in what structure, it creates value. Using an indicative dataset calibrated to 2026 GCC conditions, the study sets out the principal SLB structures, develops the central arbitrage between the capitalisation rate at which the asset is sold and the return on the redeployed capital, examines the lease structuring that determines how much control the seller retains, and analyses the accounting, tax and balance-sheet effects, including the implications of the recently introduced corporate tax and of lease accounting standards. The analysis finds that SLB creates value whenever the return on redeployed capital exceeds the capitalisation rate paid to the investor, that the seller can retain substantial operational control through careful lease structuring and repurchase options, and that the introduction of corporate tax in the region has strengthened the case for SLB by making rent a deductible expense. A net present-value comparison, a sensitivity analysis and three indicative case studies support the framework, alongside an international comparison and an implementation roadmap for practitioners.

Keywords: Capital release, corporate finance, cost of capital, family business, Ijara, real estate, sale-and-leaseback, UAE

1. Introduction

Many businesses own the buildings they operate from, and many treat that ownership as an unquestioned good. Owning the headquarters, the factory or the showroom feels prudent, permanent and prestigious, and the rent that ownership avoids feels like money saved. Yet from a corporate finance perspective, a business that owns its operating real estate is making a substantial, low-return, illiquid investment in property, often without ever having decided to do so, and that investment ties up capital that could earn a far higher return elsewhere in the business.

Sale-and-leaseback is the transaction that surfaces and reverses this implicit decision. The business sells the property to an investor and simultaneously leases it back under a long lease, so that it continues to occupy and operate the asset exactly as before, but the capital that was trapped in the property is released and can be redeployed. The business exchanges an owned asset for a leased one, and a lump of illiquid equity for a stream of rent, and in doing so it frees capital to invest where it earns more.

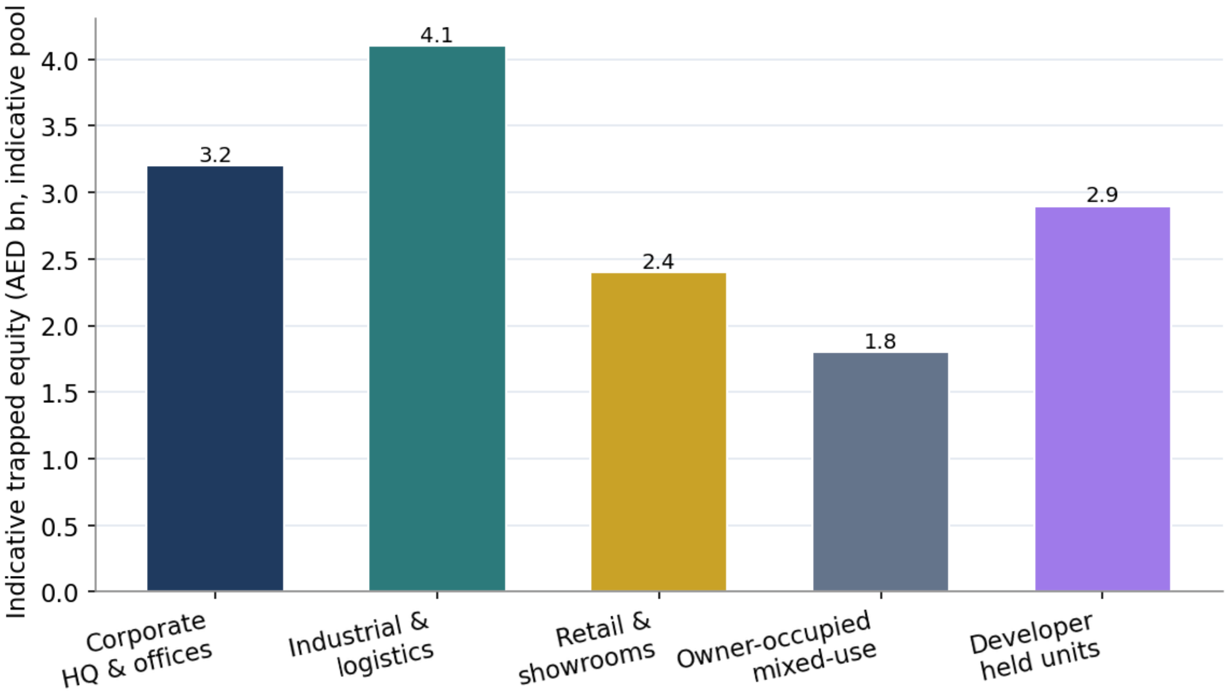
The phrase that captures the appeal, and the anxiety, of SLB is unlocking trapped capital without losing operational control. The unlocking is straightforward: the sale releases the capital. The without-losing-control part is the subtler achievement, and it is where the structuring skill lies. Through a long lease term, a renewal option, a repurchase right and carefully negotiated lease terms, a seller can retain effective operational control of the asset it no longer owns, capturing the capital release while preserving the security of tenure and the strategic optionality that ownership provided. This paper is, in large part, about how that is done.

The central argument is that SLB creates value whenever the return a business can earn on the released capital exceeds the capitalisation rate at which the asset is sold, and that the introduction of corporate tax in the GCC has strengthened this case by making lease rentals a deductible expense. The paper develops this arbitrage, sets out the structures and lease terms that determine how much control the seller retains, analyses the accounting and tax effects, and applies the framework to three indicative cases. The figures used throughout are indicative, calibrated to observable GCC conditions in early 2026 but not drawn from any specific transaction.

2. The Trapped-Capital Problem in the GCC

The GCC has a high incidence of corporate and family-business ownership of operating real estate, for reasons that are partly historical and partly cultural. Real estate has long been regarded as the safest store of wealth in the region, businesses have frequently acquired their premises as they grew, and family enterprises in particular have tended to accumulate property as a matter of course. The result is that a large quantum of capital sits trapped in owner-occupied real estate across the region, earning only the implicit return of avoided rent.

Figure 1. Indicative Trapped Equity in GCC Owner-Occupied Real Estate



Indicative pool sizing across asset types. Not official statistics.

Figure 1 illustrates the distribution of trapped equity across asset types in an indicative pool. Industrial and logistics assets, corporate headquarters and offices, and developer-held units together account for the bulk of the trapped capital, reflecting both the value of these assets and the prevalence of owner-occupation. Each of these categories represents capital that could, in principle, be released through SLB and redeployed into higher-return uses, and the aggregate is large enough that SLB is a material opportunity at the level of the regional economy, not merely for individual businesses.

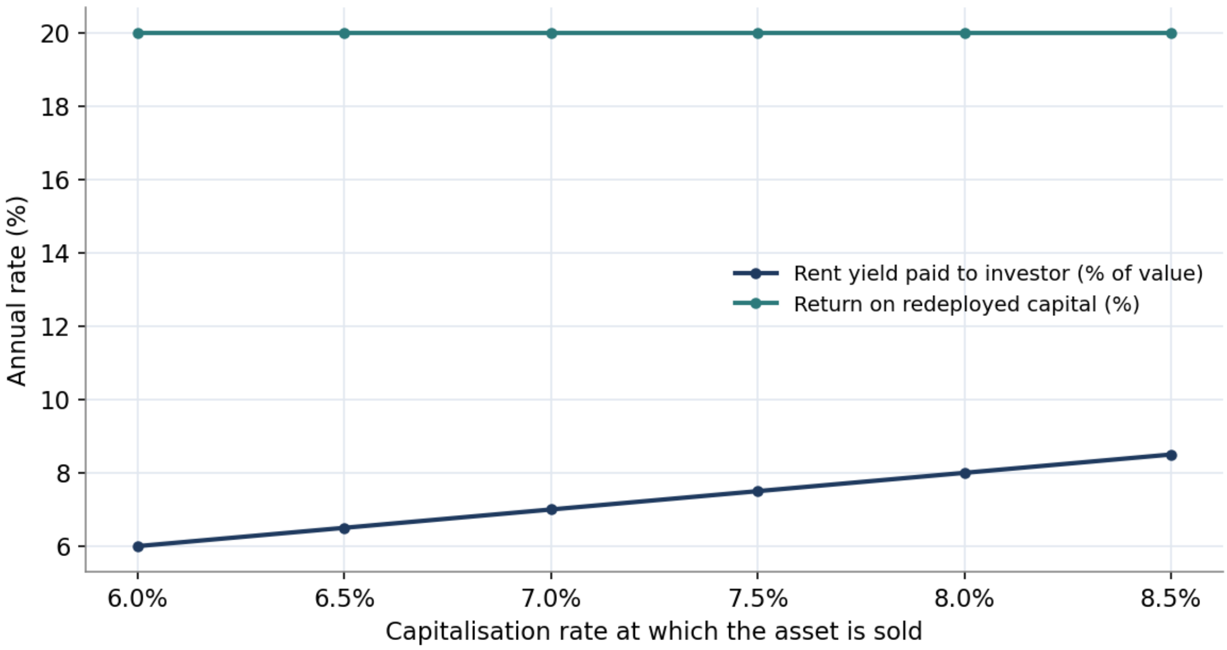
The opportunity has become more compelling in 2026 for three reasons. The first is the deepening of the investor base for income-producing real estate: family offices, funds and institutions seeking stable, long-dated yield have grown in number and scale, creating ready buyers for SLB assets. The second is the introduction of corporate tax in parts of the region, which, by making rent a deductible expense, has improved the after-tax economics of leasing relative to owning. The third is the rising cost of capital, which has increased the opportunity cost of leaving capital trapped in low-yielding property and sharpened the incentive to release and redeploy it.

Against this backdrop, the business that continues to own its operating real estate without examining the alternative is making a significant capital-allocation decision by default. The purpose of this paper is to bring that decision into the open and to provide a framework for making it deliberately, weighing the value of the capital that SLB would release against the cost of the rent and the loss of ownership that it entails.

3. Conceptual Foundations: Own versus Lease

The decision to own or lease operating real estate is, at its heart, a capital-allocation decision, and it should be analysed as one. A business that owns its premises has invested capital in an asset that yields the implicit return of avoided rent. If that asset is worth four hundred million dirhams and the market rent is seven percent of value, the business is, in effect, earning a seven percent return on four hundred million dirhams of capital by owning rather than renting. The question is whether that seven percent is the best return the business can earn on that capital, and for most operating businesses the answer is no, because the capital deployed in their core operations earns considerably more.

Figure 2. The Capitalisation-Rate versus Redeployment-Return Arbitrage



SLB creates value when the redeployment return exceeds the cap rate paid to the investor. Not a forecast.

Figure 2 expresses the core arbitrage. The business sells the asset at a capitalisation rate, which becomes the rent yield it pays the investor, and redeploys the released capital at its own return on capital. Whenever the redeployment return exceeds the capitalisation rate, the business earns more on the released capital than it pays in rent, and SLB creates value. In the illustration, a business that sells at a seven percent capitalisation rate and redeploys at a twenty percent return earns a thirteen percentage point spread on the released capital, which is the value SLB unlocks. The wider the gap between the redeployment return and the capitalisation rate, the more compelling the transaction.

This framing also clarifies when SLB does not make sense. A business whose best use of capital earns less than the capitalisation rate, perhaps because it has no attractive growth opportunities and would simply hold the proceeds as cash, gains little from SLB and may lose, because it would be paying rent at the capitalisation rate while earning less on the proceeds. SLB is therefore a tool for capital-hungry businesses with attractive redeployment opportunities, not for cash-rich businesses with nowhere productive to invest. The decision turns entirely on the return the business can earn on the released capital, which is why that return must be honestly assessed before any SLB is contemplated.

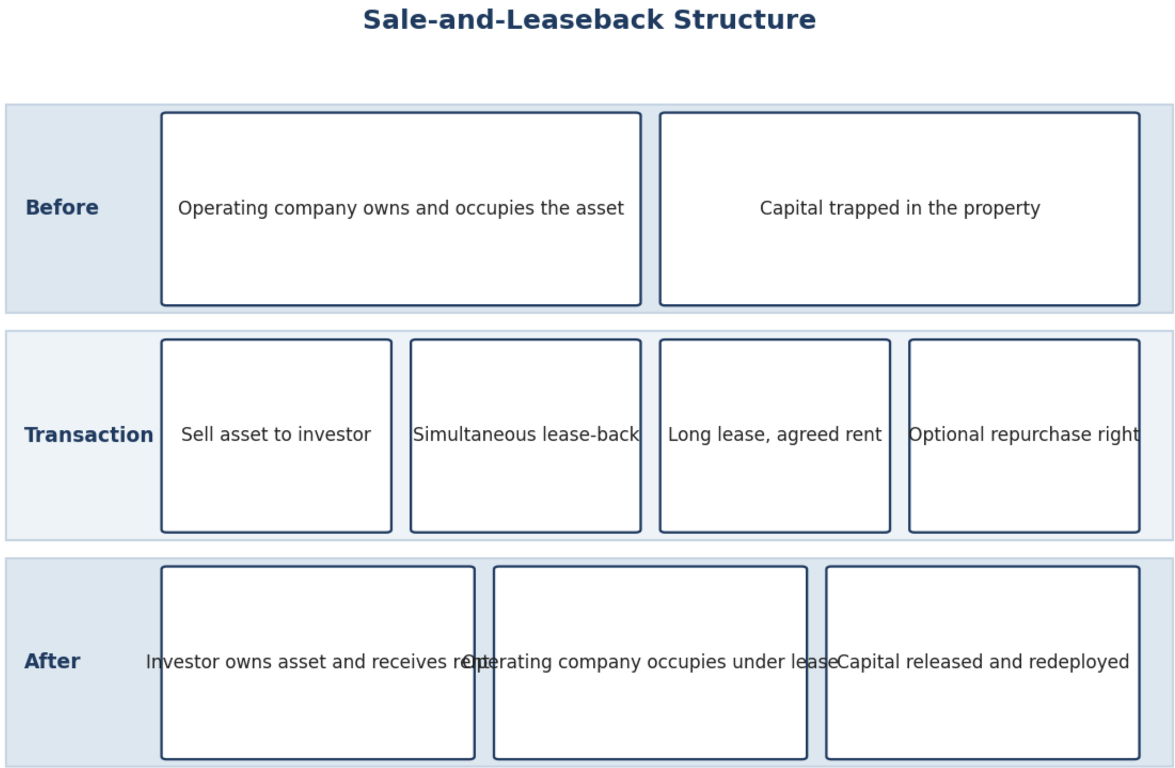
A second conceptual point concerns the separation of the operating business from the real estate. A business that owns its premises bundles two distinct activities: operating its business and investing in property. These activities have different risk profiles, different return expectations and different natural owners. SLB unbundles them, allowing the operating business to focus its capital on operating and a specialist property investor to own the property and bear the property risk. This specialisation is itself a source of value, because each activity is better performed by the party suited to it, and it is one reason SLB can create value even before the redeployment arbitrage is considered.

The unbundling perspective also helps explain the pricing of an SLB. A specialist property investor has a lower cost of capital for property risk than an operating business does, because it is diversified across many such assets and is valued by its own investors precisely for holding them. When the property passes from the operating business, for which it is an awkward, undiversified holding, to the specialist investor, for which it is a natural one, the asset moves to its highest-value owner, and part of the value created in an SLB is simply this transfer of the asset to the party that can hold it most efficiently. The capitalisation rate the investor accepts reflects its lower cost of capital for the risk, which is why the investor can pay a price that the operating business finds attractive while still earning its target return.

4. Anatomy of Sale-and-Leaseback Structures

SLB is a family of structures rather than a single transaction, and the choice among them determines how much capital is released, how much control is retained and how the risk is shared. Table 1 compares the principal structures, and the subsections describe each. Figure 3 sets out the basic mechanics common to all of them.

Figure 3. The Mechanics of a Sale-and-Leaseback



Indicative schematic of the before, transaction and after states. Not transaction-specific.

4.1 Full sale-and-leaseback

In a full SLB, the business sells the entire asset and leases back the entire asset under a single long lease. This structure releases the maximum capital and is the most common form. It suits assets that the business wishes to continue occupying in full and indefinitely, and its economics are governed directly by the capitalisation rate and the lease terms.

4.2 Partial sale-and-leaseback

A partial SLB sells and leases back only part of an asset, or sells a partial interest in the asset, releasing some of the trapped capital while retaining some ownership. This structure suits a business that wishes to release capital but retain a stake in the property upside, or that occupies only part of a larger asset and can sell the remainder outright.

4.3 Ground lease structures

A ground lease structure separates the land from the building, selling one and retaining the other. A business might sell the land and lease it back while retaining ownership of the building it operates, releasing the capital tied up in the land while keeping the building. This structure suits situations where the land carries most of the value and the building is specialised to the business.

4.4 Build-to-suit sale-and-leaseback

In a build-to-suit SLB, an investor funds the construction of a purpose-built asset to the business specification and leases it to the business on completion, so that the business never ties up capital in the asset at all. This is SLB applied at the outset rather than after the fact, and it suits a business that needs a new facility but prefers to lease it than to fund its construction.

4.5 Synthetic and hybrid structures

A range of synthetic and hybrid structures blend features of SLB with debt or joint-venture elements, releasing capital while sharing the property upside or retaining a repurchase right. These structures can be tailored to a business specific objectives, but they are more complex and should be used only where a simpler structure cannot achieve the objective.

Table 1. Comparison of Sale-and-Leaseback Structures

Structure	Capital released	Control retained	Complexity	Best for
Full SLB	Maximum	High (via lease)	Low	Core occupied assets
Partial SLB	Partial	High	Moderate	Retaining upside
Ground lease	Land value	Very high	Moderate	Land-heavy assets
Build-to-suit	Avoids outlay	High	Moderate	New facilities
Synthetic / hybrid	Variable	Variable	High	Bespoke objectives

Indicative comparison. Control retained depends primarily on lease terms. Not transaction-specific.

A practical implication of this taxonomy is that the structure should be chosen to fit the business objective rather than selected by default. A business whose sole aim is to release the maximum capital from a core occupied asset will choose a full SLB; a business that wishes to retain some property upside will prefer a partial structure; a business with a land-heavy asset and a specialised building will find a ground lease most efficient; and a business equipping a new facility will avoid tying up capital at all through a build-to-suit. Matching the structure to the objective is the first structuring decision, and it precedes the negotiation of the price and the lease terms.

5. The Capitalisation-Rate versus Cost-of-Capital Arbitrage

The arbitrage introduced in Section 3 is the analytical core of the SLB decision and deserves fuller treatment. The business sells the asset at a price determined by the capitalisation rate the investor applies to the rent, and it pays that rent thereafter. The released capital is redeployed at the business return on capital. The value created is the spread between the redeployment return and the capitalisation rate, applied to the released capital, over the period for which the capital is redeployed.

Two variables therefore dominate the value created: the capitalisation rate at which the asset is sold, which the business wishes to minimise, and the return on redeployed capital, which the business wishes to maximise. The capitalisation rate is largely set by the market and the quality of the asset and the covenant, but the business can influence it by improving the strength of its lease covenant, by lengthening the lease term, and by selling to the investor that values the asset most. The redeployment return is set by the business own opportunity set, and it is the variable the business controls most directly through its choice of where to invest the proceeds.

The arbitrage also explains why SLB is most valuable for businesses with strong covenants and attractive growth opportunities. A strong covenant attracts a low capitalisation rate, because the investor regards the rent as secure, so the business sells the asset for more and pays a lower rent yield. Attractive growth opportunities raise the redeployment return, widening the spread. A strong, growing business is therefore exactly the business for which SLB creates the most value, which is counterintuitive to those who regard SLB as a tool of last resort for distressed businesses. In truth, the distressed business gets the worst SLB terms, because its weak covenant attracts a high capitalisation rate, while the strong business gets the best.

The arbitrage framework also disciplines the temptation to over-distribute the proceeds. Because the value created depends on redeploying the released capital above the capitalisation rate, returning the proceeds to shareholders creates value only if those shareholders can themselves redeploy above that rate. For a business with genuine high-return opportunities of its own, retaining and reinvesting the proceeds usually dominates distributing them, because the business return on capital exceeds what shareholders would earn on the cash. The arbitrage thus argues for reinvestment over distribution wherever the business has the opportunities to absorb the capital productively, and it cautions against treating an SLB as a means of extracting cash from the business rather than of redeploying it within it.

6. Lease Structuring and the Retention of Control

The without-losing-control half of the SLB proposition is achieved through the lease, and the lease terms are therefore as important as the price. The single most important term is the lease length: a long lease, of fifteen, twenty or twenty-five years, gives the business security of tenure that approaches the permanence of ownership, ensuring it cannot be displaced from a strategic asset. A short lease, by contrast, leaves the business exposed to non-renewal and undermines the control that ownership provided.

Beyond length, several terms determine the degree of control retained. A renewal option gives the business the right to extend the lease at its discretion, further securing its tenure. A repurchase option gives the business the right to buy the asset back at a future date, preserving the optionality of ownership and allowing the business to recover the asset if its circumstances change. The rent escalation mechanism determines how the rent grows over time, and a business will prefer fixed or capped escalations that give it certainty over its future occupancy cost. The allocation of repair, insurance and outgoing obligations, often structured as a triple-net lease in which the tenant bears them, affects both the rent and the control the business has over the asset condition.

Through careful negotiation of these terms, a business can retain effective operational control of an asset it no longer owns. A twenty-five year lease with renewal options, a repurchase right and capped escalations gives the business security of tenure, the option to recover ownership, and certainty over its occupancy cost, which together replicate most of the practical benefits of ownership while releasing the capital. The price of these favourable terms is paid in the rent and the capitalisation rate, because an investor will pay less, or demand more rent, for an asset over which the tenant retains so much control. The structuring task is to balance the control retained against the price paid for it, retaining the control that genuinely matters and conceding the rest.

It is worth emphasising that the control retained through a lease is different in kind from the control of ownership, even if it is similar in practical effect. A leaseholder, however long its lease, does not capture the property appreciation, cannot redevelop the asset freely, and must comply with the lease covenants. For most operating businesses these differences are immaterial, because they value the asset for its use rather than for its investment return, and the appreciation they forgo is precisely the return the investor is buying. But for a business that genuinely values the property upside or the freedom to redevelop, a partial SLB or a structure that retains some ownership may be preferable to a full SLB, and the choice should reflect what the business actually values about ownership.

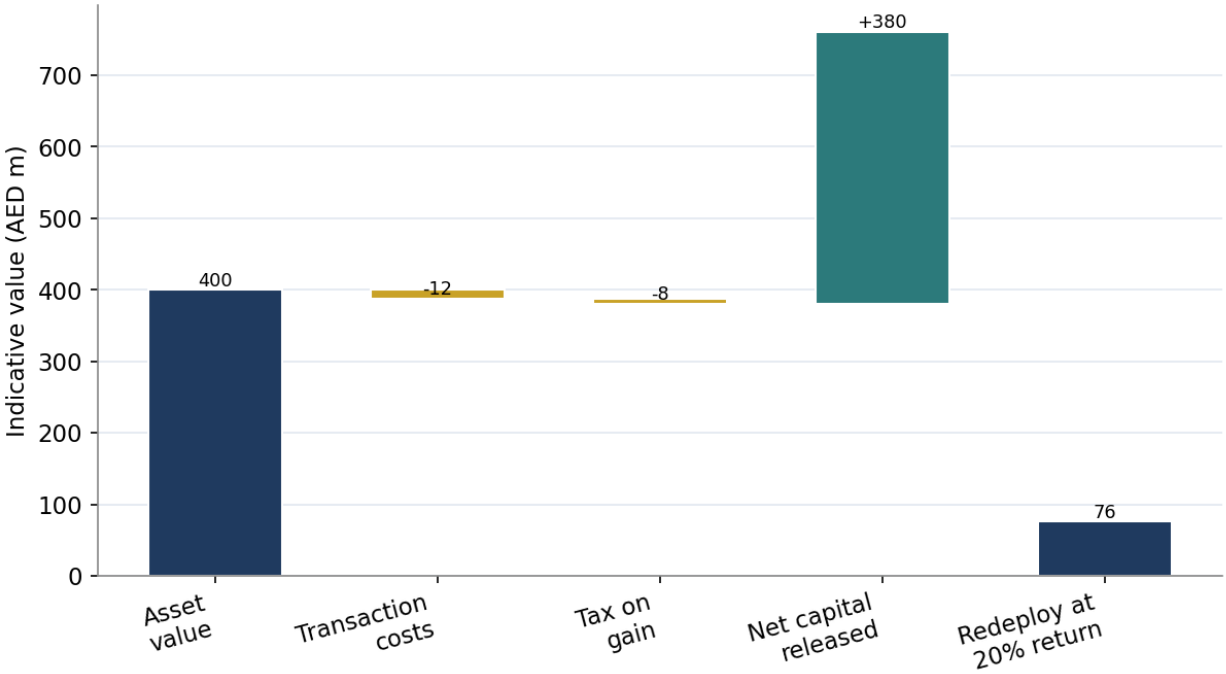
A frequently overlooked aspect of lease structuring is the interaction between the lease terms and the price. The investor prices the asset on the security and length of the income it will receive, so terms that strengthen and lengthen that income, a strong covenant, a long term, an upward-only escalation, lower the capitalisation rate and raise the price. The seller therefore faces a genuine trade-off: terms that favour the investor raise the price and lower the rent yield, while terms that favour the seller, such as a repurchase option or a capped escalation, reduce the price the investor will pay. The art of the negotiation is to concede the terms that cost the seller little but that the investor values, while retaining the protections that genuinely matter, so that the seller obtains a keen price without sacrificing essential control.

It is worth dispelling a common misconception that SLB is a form of borrowing. Although an SLB and a mortgage both release capital against a property, they are economically distinct. A mortgage retains ownership and the property upside with the business and adds a debt obligation; an SLB transfers ownership and the upside to the investor and adds a rent obligation. The right choice between them depends on whether the business values the property upside enough to retain it and service the debt, or would rather release the full value and forgo the upside. For a business whose capital is better deployed in its operations than in property, the SLB, which releases the full value, usually dominates the mortgage, which releases only a fraction.

7. Capital Released and Use of Proceeds

The capital released by an SLB is the sale price net of transaction costs and any tax on the gain, and Figure 4 sets out this calculation. The headline asset value is reduced by the costs of the transaction and any tax, to arrive at the net capital released, which is then available for redeployment at the business return on capital.

Figure 4. Net Capital Released and Its Redeployment



Asset value net of costs and tax, redeployed at the business return on capital. Not a forecast.

The use of the proceeds is the decision that determines whether the SLB creates value, because the redeployment return is half of the arbitrage. The most value-creating uses are investments in the core business that earn the business full return on capital: expanding capacity, entering new markets, acquiring a competitor, or funding a high-return project. Less value-creating uses include repaying debt, which earns only the avoided interest cost, and distributing to shareholders, which creates value only if the shareholders can redeploy at a higher return than the business. The least value-creating use is to hold the proceeds as cash, which earns less than the capitalisation rate and destroys value.

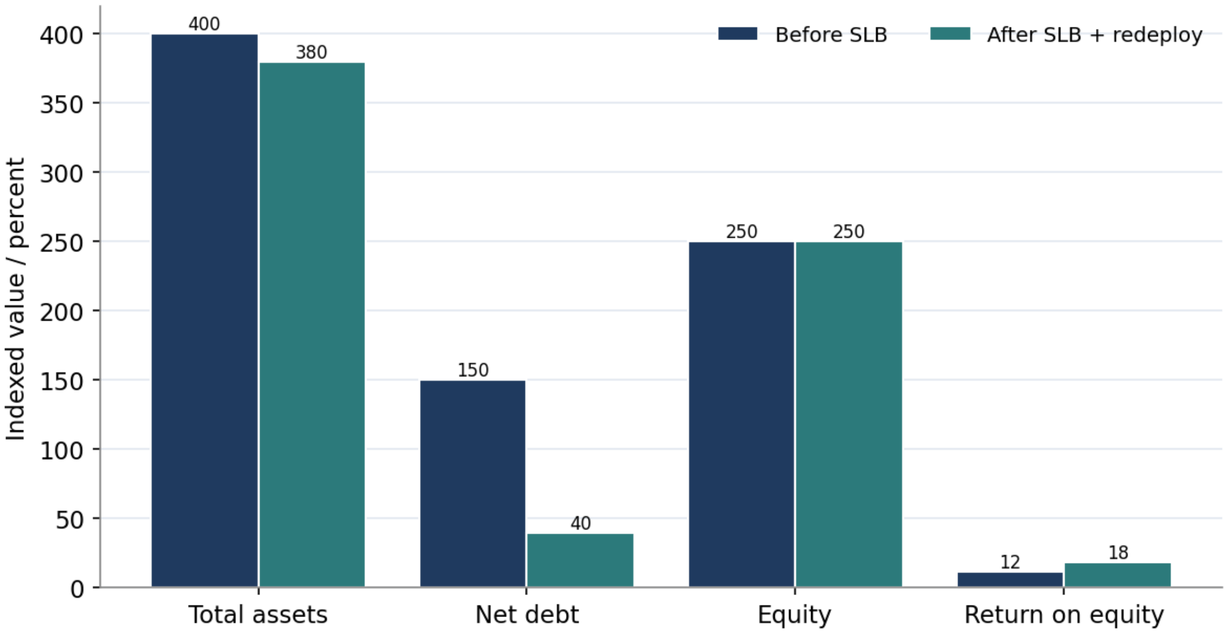
A business contemplating an SLB should therefore have a clear and committed plan for the proceeds before it transacts, because the SLB is only as good as the use to which the released capital is put. An SLB executed without a redeployment plan, leaving the proceeds idle while the rent accrues, is value-destructive, and it is one of the most common errors in the use of the tool. The discipline of identifying and committing to a high-return redeployment before transacting is what separates a value-creating SLB from a value-destructive one.

The redeployment decision can be framed as a simple hurdle test. Each candidate use of the proceeds is assessed against the capitalisation rate the business is paying in rent, and only uses that clear this hurdle create value. Investment in the core business that earns the full return on capital clears it comfortably; debt repayment clears it only if the interest saved exceeds the rent yield; and holding cash fails it outright. Ranking the candidate uses against this hurdle, and applying the proceeds to the highest-ranked uses first, ensures that the released capital is deployed where it earns most, and it converts the vague intention to put the money to good use into a concrete and disciplined allocation.

8. Accounting, Tax and Balance-Sheet Effects

SLB has significant accounting, tax and balance-sheet effects that bear on the decision. On the balance sheet, the sale removes the asset and, under current lease accounting standards, recognises a right-of-use asset and a corresponding lease liability for the leased-back property. The transaction therefore does not entirely remove the property from the balance sheet, as older accounting treatments allowed, but it does convert an owned asset and any associated debt into a leased asset and a lease liability, changing the structure of the balance sheet even where the headline asset total moves little.

Figure 5. Indicative Balance-Sheet and Return-on-Equity Effect of SLB



SLB plus redeployment reduces net debt and raises return on equity. Not a forecast.

Figure 5 illustrates the balance-sheet effect. The release of capital allows the business to repay debt, reducing net debt, and the redeployment of the balance into higher-return activities raises the return on equity. The combination, lower net debt and higher return on equity, improves the financial profile the business presents to lenders and investors, which can lower its cost of capital and support further growth. This balance-sheet improvement is a genuine benefit of SLB, distinct from the redeployment arbitrage, and it can be particularly valuable for a business seeking to deleverage or to demonstrate financial discipline.

The tax effect has become more significant with the introduction of corporate tax in parts of the GCC. Where corporate tax applies, the rent paid under the leaseback is generally a deductible expense, reducing the business taxable profit, whereas the depreciation on an owned asset may provide a smaller or differently timed deduction. The deductibility of rent improves the after-tax cost of leasing relative to owning and strengthens the case for SLB. The tax on the gain realised on the sale must also be considered, as it reduces the net capital released, and the interaction of these effects should be assessed with professional tax advice for any specific transaction. The broad point is that the arrival of corporate tax in the region has shifted the balance toward leasing, making SLB more attractive than it was in a tax-free environment.

The balance-sheet improvement that SLB delivers can also have second-order benefits that are easy to overlook. A business that reduces its net debt and raises its return on equity through an

SLB may improve its credit standing, which can lower the cost of its remaining borrowing and widen its access to capital for future growth. For a business preparing for a capital raise, a sale, or a generational transition, the cleaner, more efficient balance sheet that SLB produces can improve the terms it achieves in that subsequent transaction. The accounting and balance-sheet effects of an SLB are therefore not merely presentational; they can change the business cost of capital and its attractiveness to investors and acquirers.

9. Control and Strategic Considerations

Beyond the financial arbitrage, SLB raises strategic considerations that a business must weigh. The most important is the strategic importance of the asset. For an asset that is genuinely strategic, a unique site, a specialised facility, a flagship headquarters, the business must ensure that the lease secures its long-term occupancy beyond doubt, because losing access to a strategic asset would damage the business far more than the capital release would benefit it. For such assets, a long lease with strong renewal and repurchase rights is essential, and the business should be willing to pay for these protections in the price.

A second consideration is the signal that an SLB sends. Because SLB has historically been associated with businesses raising cash under pressure, an SLB can be misread by the market as a sign of distress, even when it is a deliberate capital-allocation decision by a strong business. A business contemplating an SLB should manage this signalling risk, framing the transaction clearly as a capital-efficiency measure and, where relevant, pointing to the high-return use of the proceeds that justifies it. As SLB becomes more common and better understood in the region, this signalling risk is diminishing, but it has not disappeared, and it should be managed deliberately.

A third consideration is the loss of flexibility to redevelop or repurpose the asset. An owner can redevelop, extend or repurpose its property as its needs change; a leaseholder generally cannot without the landlord consent. For a business in a stable use with no foreseeable need to alter the asset, this loss is immaterial; for a business that may need to expand or reconfigure its premises, it can be significant, and the lease should preserve the necessary flexibility through alteration rights and, where needed, options over adjacent space. The strategic analysis, in short, asks not only whether the financial arbitrage is favourable but whether the business can comfortably operate the asset under a lease for the long term, and it should be conducted before the financial analysis rather than after.

The strategic analysis should also consider the reversibility of the decision. An SLB is difficult and costly to unwind: having sold the asset, the business can recover it only by exercising a repurchase option, if it negotiated one, or by buying it back at market value, which may have risen. This irreversibility means the decision should be made with a long-term view of the business need for the asset, and that the repurchase option, where the asset might one day be wanted back, is a valuable protection worth paying for. A business uncertain whether it will need the asset in the long term should either retain ownership or secure a repurchase right, rather than executing an irreversible full SLB it may later regret.

10. Risk Considerations

SLB transfers the property risk to the investor but creates new obligations and risks for the seller. The most important is the rent obligation: the business commits to a long stream of rent payments that it must meet regardless of its trading performance, converting a flexible owned asset into a fixed liability. A business whose trading is volatile must consider whether it can meet the rent through a downturn, because a failure to do so would breach the lease and jeopardise its occupancy. The fixed nature of the rent obligation is the principal risk SLB creates, and it should be sized against the business stressed cash flow rather than its base case.

A second risk concerns the rent escalation. A lease with uncapped escalations, perhaps linked to an index, exposes the business to rising occupancy costs over the long lease term, and in a high-inflation environment these escalations can become onerous. A business will prefer fixed or capped escalations that give it certainty, and the negotiation of the escalation mechanism is one of the most important and most overlooked aspects of the lease. A third risk is the residual position at lease end: a business that has not secured a renewal or repurchase right faces the prospect of losing the asset, or renewing at an open-market rent that may be far higher, when the lease expires, and it should address this through renewal and repurchase provisions negotiated at the outset.

The rent and escalation risks interact with the business operating leverage in a way that deserves attention. A business with high fixed operating costs and volatile revenues adds, through an SLB, another large fixed cost in the form of rent, increasing its operating leverage and its vulnerability to a downturn. A business with low fixed costs and stable revenues can absorb the rent obligation comfortably. The suitability of an SLB therefore depends partly on the business existing cost structure and revenue stability, and a business with already high operating leverage should approach the additional fixed rent obligation with caution, sizing it against a genuine downside rather than its base case.

The residual risk at lease end deserves particular planning because it can quietly undo the benefit of the transaction. A business that releases capital today but faces an uncertain and potentially expensive renewal in twenty years has merely deferred a problem, and the present value of that future uncertainty should be weighed in the decision. The remedy is to negotiate, at the outset, either a long initial term that extends beyond the business planning horizon, renewal options at pre-agreed terms, or a repurchase right that lets the business recover the asset. Addressing the residual at the outset, when the business has negotiating leverage, is far cheaper than confronting it at lease end, when the investor holds the stronger position.

11. Considerations Specific to the GCC

11.1 Corporate tax and the deductibility of rent

The introduction of corporate tax in parts of the GCC is the single most important recent development for SLB economics. By making rent a deductible expense, corporate tax improves the after-tax cost of leasing relative to owning, strengthening the case for SLB. A business operating in a taxable environment should incorporate the rent deduction into its analysis, as it can materially improve the after-tax arbitrage and tip a marginal transaction into clearly value-creating territory. The interaction of the rent deduction with the tax on the sale gain, and with any depreciation the business would otherwise have claimed, should be assessed with professional advice for each specific transaction.

11.2 Ownership rules and structuring

Real estate ownership in parts of the GCC is subject to rules on foreign ownership and on the location of freehold and leasehold interests, and these rules shape both the pool of investors that can buy an SLB asset and the structures through which a transaction can be effected. A business contemplating an SLB should understand the ownership framework applicable to its asset, as it determines which investors can participate and therefore the depth of the buyer pool and the capitalisation rate achievable. In some cases, structuring through a free zone or a particular ownership vehicle can widen the investor pool and improve the terms.

11.3 Shariah-compliant sale-and-leaseback through Ijara

The Ijara structure, central to Islamic finance, is in essence a Shariah-compliant lease, and it provides a natural route to a compliant SLB. A business that sells its asset to an investor and leases it back through an Ijara achieves the economic effect of an SLB within a compliant framework, accessing the deep pool of compliant capital in the region. For a business whose own mandate or whose investor base favours compliant structures, the Ijara-based SLB is not a constraint but an opportunity, widening the pool of potential buyers and, in the right conditions, improving the terms. The prevalence and acceptance of Ijara in the region make Shariah-compliant SLB straightforward to execute.

The Shariah-compliant route deserves emphasis because of its breadth in the region. Since Ijara is a well-established and widely accepted structure, a compliant SLB is not a niche or difficult transaction but a mainstream one, and the pool of compliant capital is deep enough that a compliant SLB can often achieve terms as good as, or better than, a conventional one. A business that assumes it must use a conventional structure, without considering the Ijara alternative, may be narrowing its investor pool unnecessarily and forgoing the keenest pricing. For many GCC businesses, the compliant route should be the first option considered rather than an afterthought.

12. The Investor Perspective

An SLB closes only if the investor finds the asset attractive, and understanding the investor underwriting is essential to structuring and pricing the transaction. The SLB investor underwrites a long, secure stream of rent backed by the seller covenant and the value of the asset. It values the asset on the capitalisation of the rent, adjusted for the strength of the covenant, the length of the lease, the quality and location of the asset, and the rent escalation. A strong covenant, a long lease and a quality asset attract a low capitalisation rate, meaning the investor pays more, which is precisely the outcome the seller seeks.

The principal SLB investors in the GCC are family offices, real estate funds and institutions seeking stable, long-dated income, and increasingly specialist SLB and net-lease investors who focus on this asset class. Each values slightly different features: a family office may prioritise a quality asset and a strong covenant for a long-term hold; a fund may prioritise the yield and the lease length to meet its return targets; a net-lease specialist may prioritise the strength and structure of the lease covenant above all. A seller that understands which investor values its asset most highly can direct the sale to that investor and achieve the lowest capitalisation rate, just as the bulk-sale seller of the previous paper directs its inventory to the shallowest-discount buyer. Matching the asset to the investor that values it most is, here too, a direct determinant of the terms achieved.

13. Indicative Case Studies

Three indicative cases show the framework applied across different situations. The figures are synthetic and constructed for analytical clarity, not drawn from any specific transaction.

13.1 Case A: corporate headquarters

Case A is a profitable services business that owns its headquarters, an asset worth four hundred million dirhams that ties up capital earning only the avoided rent. The business has attractive growth opportunities earning a twenty percent return on capital. It executes a full SLB at a seven percent capitalisation rate on a twenty-five year lease with renewal and repurchase options, releasing the capital net of costs and tax and redeploying it into its growth. The arbitrage is wide, a twenty percent redeployment return against a seven percent rent yield, and the SLB creates substantial value while the long lease and options preserve the business control of its headquarters.

Table 2. Case A Economics, Corporate Headquarters SLB

Line	AED m	Note
Asset value (sale price)	400.0	7% cap rate on market rent
Transaction costs and tax	(20.0)	Costs and tax on gain
Net capital released	380.0	Available for redeployment
Annual rent paid	28.0	7% of value, capped escalation
Annual value created	**~49.4**	13% spread on 380m released

Value created is the spread between redeployment return and rent yield on the released capital. Not transaction-specific.

13.2 Case B: developer-held completed units

Case B is a developer holding a block of completed units that it operates as a leasing portfolio. Rather than sell the units in bulk and exit entirely, as in the previous paper, the developer executes a partial SLB, selling the units to an investor and leasing them back to continue operating them, releasing the capital while retaining the operating relationship and some upside. This structure suits a developer that values the operating income and the customer relationships but needs the capital, and it blends the capital release of an SLB with the retention of an operating role.

Table 3. Case B Economics, Developer Units Partial SLB

Line	AED m	Note
Portfolio value	250.0	Completed leasing units
Interest sold (70%)	175.0	Partial SLB, retains 30%
Net capital released	166.0	After costs
Upside retained	30%	Continues to operate units
Redeployed to new project	**166.0**	Higher development return

Partial SLB releases capital while retaining an operating role and upside. Not transaction-specific.

13.3 Case C: family business industrial facility

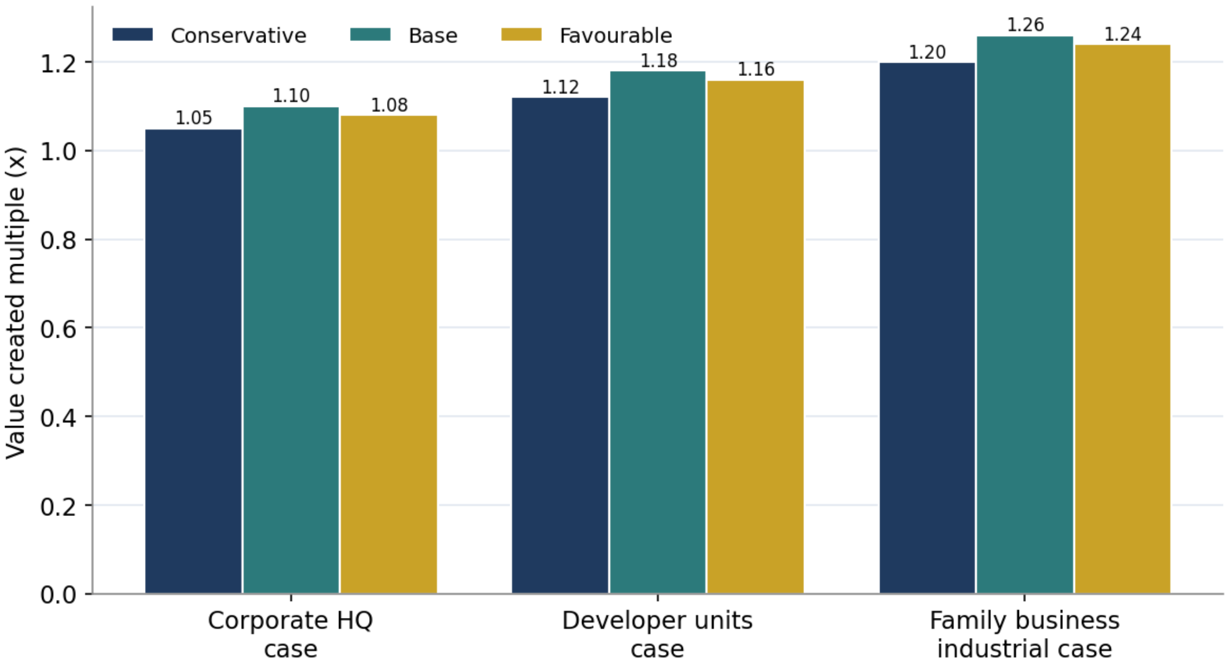
Case C is a family manufacturing business that owns its industrial facility, an asset accumulated over decades that ties up capital the business needs to fund expansion and a generational transition. The business executes a full SLB through a Shariah-compliant Ijara structure, releasing the capital to fund new equipment and to provide liquidity for the succession, while a long lease secures the facility for the operating business. The case illustrates SLB as a tool for family businesses, releasing capital trapped in legacy real estate to fund growth and succession without selling the operating business or losing the facility.

Table 4. Case C Economics, Family Business Industrial SLB

Line	AED m	Note
Industrial facility value	320.0	Legacy owned asset, Ijara SLB
Net capital released	305.0	After costs
Fund new equipment	150.0	Core expansion
Liquidity for succession	100.0	Buy out non-active members
Lease secures facility	**25-yr**	Operating business retains use

SLB funds growth and succession from legacy real estate while a long lease secures the facility. Not transaction-specific.

Figure 6. Value Created Multiple by Case and Scenario



Synthetic figures for analytical comparison. Value created relative to the status quo of continued ownership. Not a forecast.

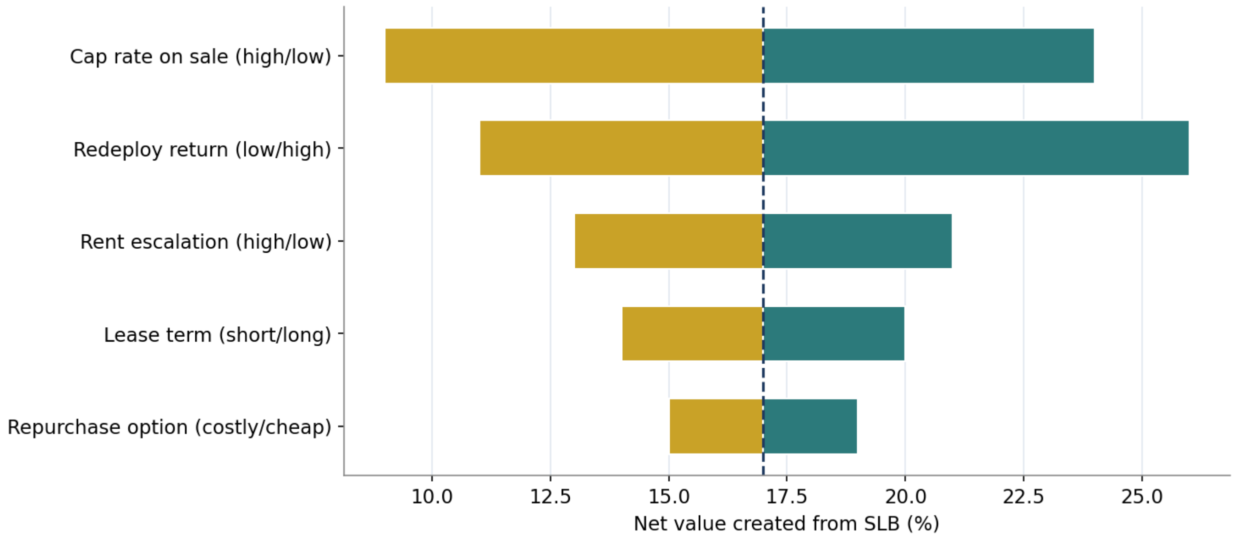
Figure 6 compares the value created across the three cases under conservative, base and favourable scenarios. All three create value across the scenarios, because in each the redeployment return exceeds the capitalisation rate, but the magnitude varies with the width of that spread and the quality of the redeployment. The corporate headquarters case, with its wide arbitrage, creates the most; the cases with narrower spreads or partial structures create less but still meaningful value. The pattern confirms that SLB creates value across a range of conditions provided the central arbitrage is favourable, and that the magnitude depends on the spread and the redeployment.

The three cases together illustrate the breadth of the technique. The corporate headquarters case shows SLB as a tool of capital efficiency for a profitable services business; the developer units case shows it as a way to release capital while retaining an operating role; and the family business case shows it as a means of funding growth and succession from legacy real estate. These are very different businesses with very different motivations, yet the same underlying arbitrage governs all three, which is what makes SLB such a versatile tool. The framework applies across the cases, and the differences lie only in the structure chosen and the use to which the released capital is put.

14. Sensitivity and Scenario Analysis

A tornado analysis identifies the variables that most influence the value created by an SLB. Figure 7 presents the result.

Figure 7. Sensitivity of Value Created to Key Variables



Each bar shows the value created when the labelled variable moves to its low or high case. Dashed line is the base case. Indicative.

The analysis confirms that the capitalisation rate and the redeployment return dominate the value created, while the lease terms, the escalation and the repurchase option, though important for control and risk, are second-order for the headline value. This is intuitive, since the capitalisation rate and the redeployment return are the two sides of the central arbitrage. The implication for the business is that effort should be concentrated on minimising the capitalisation rate, by strengthening the covenant and the lease and selling to the right investor, and on maximising the redeployment return, by committing the proceeds to the highest-return use available. The lease terms should be negotiated to retain the control that matters and to contain the rent and residual risks, but they are not the principal driver of the value created.

Table 5. Scenario Matrix for SLB Value Created

Scenario	Cap rate on sale	Redeployment return	Value created
Favourable	Low (6.5%)	High (20%)	Strongly positive
Base	Moderate (7.0%)	Moderate (15%)	Positive
Marginal	High (8.0%)	Low (10%)	Marginally positive
Unfavourable	High (8.5%)	Very low (7%)	Neutral to negative

SLB creates value while the redeployment return exceeds the cap rate. Not a forecast.

The scenario matrix makes the decision rule explicit. SLB creates value while the redeployment return exceeds the capitalisation rate, and the margin of value depends on the width of that spread. The unfavourable scenario, in which a weak covenant attracts a high capitalisation rate and the business has only low-return uses for the capital, is the one in which SLB should be avoided, because the business would be paying more in rent than it earns on the proceeds. The business task is to identify which scenario it is in, by honestly assessing both the capitalisation rate its asset and covenant will attract and the return it can earn on the released capital, and to proceed only where the arbitrage is genuinely favourable.

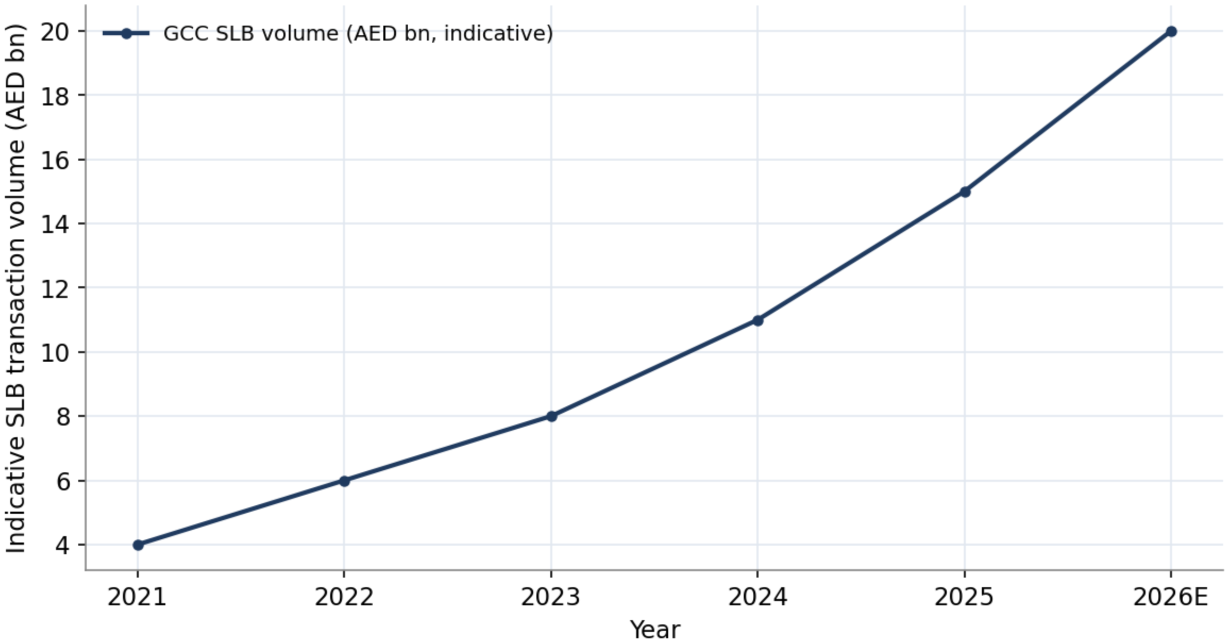
A further lesson from the sensitivity analysis concerns the importance of the covenant. Because a stronger covenant lowers the capitalisation rate, a business can improve its SLB terms by strengthening the entity that gives the lease covenant, for example by having a stronger group company guarantee the rent. This is a structuring lever that costs the business little but can materially lower the capitalisation rate, and it is frequently underused. A business preparing for an SLB should consider how to present the strongest credible covenant to the investor, because the covenant is, after the asset quality and the lease length, the most important determinant of the price.

15. International Comparison

SLB is a mature and widely used corporate finance tool in the United States and the United Kingdom, where a deep market of net-lease and SLB investors competes to acquire assets from corporate sellers, and where the technique is well understood and free of any stigma of distress. In those markets, SLB is a routine part of corporate capital management, used by strong companies to release capital from real estate and redeploy it into their operations, and the depth of the investor market keeps capitalisation rates competitive and terms favourable to sellers.

Figure 8 illustrates the growth of the GCC SLB market toward this maturity. The lesson from the more developed markets is that as the investor base deepens and the technique becomes better understood, capitalisation rates compress and terms improve for sellers, and the stigma of distress fades. The GCC market is on this trajectory, and businesses that engage with SLB now, building relationships with the growing pool of SLB investors and developing the internal capability to evaluate and execute transactions, will be well placed to use the tool efficiently as the market matures. The international experience also demonstrates the value of strong lease structuring in retaining control, a lesson the GCC market is rapidly absorbing.

Figure 8. Indicative Growth of the GCC Sale-and-Leaseback Market



Indicative transaction volume. Not official statistics.

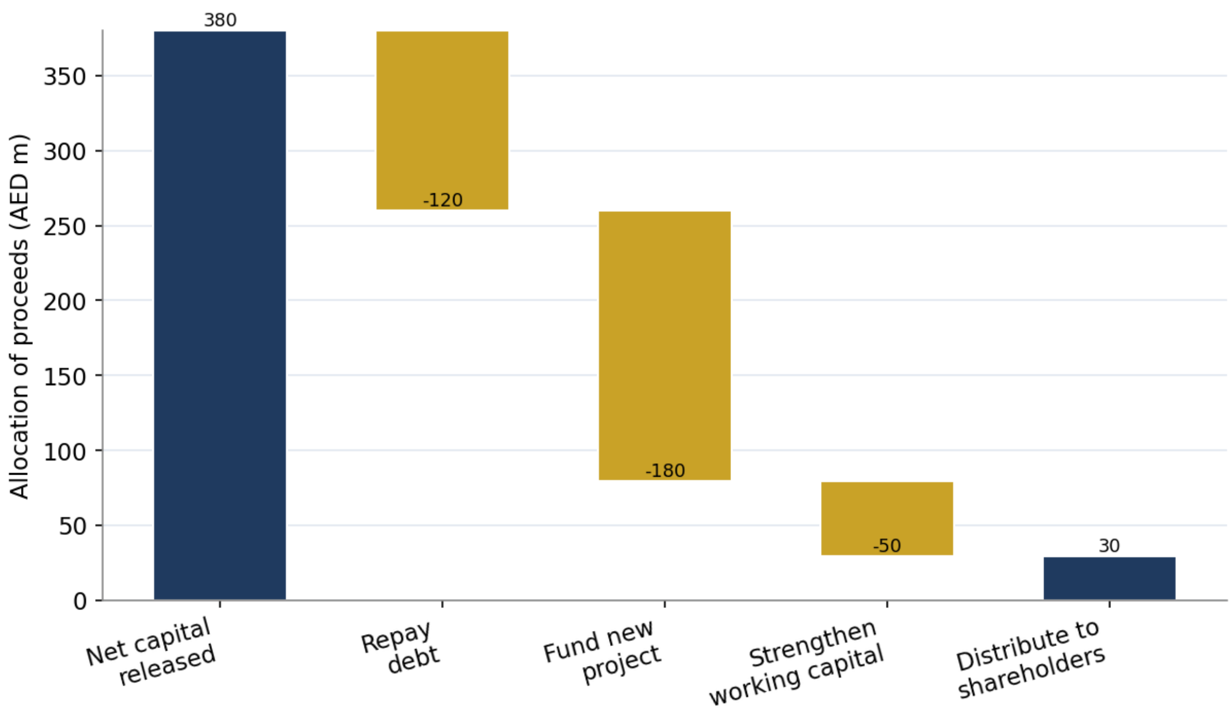
The trajectory of the GCC market also implies that timing matters. As the investor base deepens and capitalisation rates compress, the terms available to sellers improve over time, which means a business that can choose when to transact may benefit from waiting for a more developed market, while a business with an urgent need transacts on today terms. For most businesses the redeployment opportunity, rather than the precise market timing, should drive the decision, because the value of deploying capital into a high-return use now usually exceeds the benefit of waiting for marginally better SLB terms later. But a business with no pressing need and a marginal arbitrage may reasonably wait for the market to mature.

The covenant lever connects to a broader point about preparation. A business that prepares for an SLB in advance, by ensuring its accounts are clean, its covenant is presented at its strongest, and its asset is well documented, will achieve materially better terms than one that comes to market unprepared. This preparation is analogous to the readiness that improves the terms of any capital transaction, and it rewards the business that treats the SLB as a considered process rather than a reactive scramble. The months spent preparing the covenant and the asset for sale are among the highest-return uses of management time in the whole exercise.

16. Reinvestment of Released Capital

As with the previous papers in this series, the value of SLB depends decisively on the use of the released capital. Figure 9 illustrates the allocation of SLB proceeds across competing uses.

Figure 9. Indicative Allocation of SLB Proceeds (AED m)



Proceeds applied across debt repayment, new investment, working capital and distribution. Not a forecast.

The allocation that maximises value directs the proceeds to the highest-return uses, typically investment in the core business or in new high-return projects, with debt repayment and distribution as secondary uses justified only where they earn or release more than the capitalisation rate. The business should rank its available uses of capital by their return and apply the proceeds in that order, stopping when the marginal use earns less than the rent yield it is paying. This disciplined ranking ensures that every dirham of released capital is put to a use that earns more than it costs, which is the condition for the SLB to create value.

The deeper strategic point is that SLB is a tool for reallocating capital from a low-return use, owning operating property, to a high-return use, investing in the business. A business that uses SLB to fund genuine growth converts dead capital into productive capital and accelerates its development; a business that uses it to plug a hole or to fund consumption merely exchanges an asset for a liability without creating value. The tool is powerful, but its power is entirely contingent on the use of the proceeds, and the business that contemplates an SLB should begin not with the asset it might sell but with the high-return use it would fund, working backward from the opportunity to the financing rather than forward from the asset to a search for a use.

The recycling perspective connects SLB to the other capital-release tools examined in this series. Like bulk inventory monetisation and land refinancing, SLB is fundamentally a means of converting capital locked in real estate into capital available for higher-return deployment, and the discipline that governs all of them is the same: release capital only where it can be redeployed above its cost, and structure the release to retain what genuinely matters. A business that masters this discipline across all its real-estate holdings, owned premises, completed inventory and land, can run a far more capital-efficient balance sheet than one that allows capital to lie trapped in property by default.

A final reflection concerns the cultural shift that wider adoption of SLB represents in the region. The historic preference for owning real estate reflected an era in which property was the safest store of wealth and capital markets were less developed. As regional capital markets deepen and as businesses face greater competitive pressure to deploy capital efficiently, the logic of releasing capital from low-return property and redeploying it into higher-return operations becomes harder to resist. SLB is, in this sense, a marker of the maturing of the regional corporate sector, and the businesses that adopt it earliest will enjoy a capital-efficiency advantage over those that cling to ownership out of habit.

17. Common Errors and How to Avoid Them

A recognisable set of errors recurs in SLB, each flowing from a failure to analyse the transaction as the capital-allocation decision it is.

- **No redeployment plan.** Executing an SLB without a committed, high-return use for the proceeds leaves the released capital idle while the rent accrues, destroying value. The remedy is to identify and commit to the redeployment before transacting.
- **Sacrificing control for price.** Accepting a short lease to secure a lower rent or higher price sacrifices the security of tenure that is the point of retaining control. The remedy is to secure a long lease with renewal and repurchase options.
- **Uncapped escalations.** Agreeing uncapped rent escalations exposes the business to rising occupancy costs over the long lease term. The remedy is to negotiate fixed or capped escalations.
- **Under-protecting strategic assets.** Selling a strategic asset on terms that do not guarantee long-term occupancy risks the business access to an asset it cannot do without. The remedy is to secure strategic assets with the strongest tenure protections.
- **Selling to the wrong investor.** Selling to the first available investor rather than the one that values the asset most concedes a higher capitalisation rate than necessary. The remedy is to run a competitive process targeting the investors that value the asset most.

Each of these errors is avoidable with the discipline the framework encourages: begin with the high-return use of the proceeds, secure the control that matters through the lease, contain the rent and residual risks, and sell to the investor that values the asset most.

18. Implementation Roadmap

1. Begin with the high-return use of capital that the SLB would fund, and confirm that its return exceeds the capitalisation rate the asset will attract, since this arbitrage is the source of value.
2. Assess the strategic importance of the asset and determine the tenure protections, lease length, renewal and repurchase rights, required to preserve the control that matters.
3. Estimate the capitalisation rate the asset and covenant will attract, and identify the lease terms and covenant enhancements that would lower it.
4. Analyse the accounting, tax and balance-sheet effects, including the rent deduction under corporate tax and the tax on the sale gain, with professional advice.
5. Select the structure, full, partial, ground lease, build-to-suit or Shariah-compliant Ijara, that best matches the business objectives for capital release and control.
6. Run a competitive process targeting the investors that value the asset most highly, to achieve the lowest capitalisation rate and the best terms.

7. Commit the released capital to the identified high-return use promptly, so that the redeployment arbitrage that justifies the SLB is actually realised.

The roadmap deliberately begins with the use of capital rather than with the asset, because this ordering prevents the most common strategic error. A business that begins by deciding to sell an asset and then searches for a use for the proceeds has reversed the logic, and it risks executing an SLB whose proceeds end up in a low-return use that does not justify the rent. A business that begins with a high-return opportunity it cannot otherwise fund, and then identifies SLB as the means of funding it, ensures from the outset that the released capital has a destination that justifies the transaction. The opportunity should drive the financing, not the other way around.

19. Strategic Perspective: An Own-versus-Lease Policy

The SLB decision for a single asset is best understood as an instance of a broader question every business should answer deliberately: should it own or lease its operating real estate as a matter of policy. A business that has never asked this question owns its property by default, with capital trapped accordingly. A business that asks it explicitly will conclude, in most cases, that its capital earns more in its operations than in property, and will adopt a policy of leasing rather than owning, using SLB to release the capital already trapped and avoiding the accumulation of further trapped capital in future.

Such a policy does not mean a business should never own real estate. There are assets, genuinely strategic sites, specialised facilities, assets with significant development upside the business can capture, for which ownership is justified. But these are exceptions, and the default for ordinary operating real estate, in a business with attractive uses for its capital, should be to lease rather than to own. Adopting this default, and applying SLB to the property already owned, is a strategic capital-allocation decision that can materially raise a business return on capital over time.

For family businesses in particular, the own-versus-lease policy intersects with questions of legacy and identity, because the property has often been accumulated over generations and is bound up with the family sense of the business. These considerations are real and should be respected, but they should be weighed explicitly against the cost of the trapped capital rather than allowed to settle the question by default. A family business that understands the capital its property ties up, and the growth that capital could fund, is better placed to make a considered choice between the financial benefit of release and the non-financial value of ownership, and to find structures, such as partial SLB or retained repurchase rights, that balance the two.

For the family business, finally, SLB can be a tool of intergenerational fairness as well as capital efficiency. Where a business is owned by several family members, some active in the business and some not, the capital trapped in the property can be a source of tension, because the non-active members may prefer liquidity while the active members wish to retain the asset. An SLB can resolve this by releasing the capital, allowing the non-active members to be bought out or distributed to, while the active members continue to operate the asset under the lease. Used in this way, SLB becomes part of the succession and governance toolkit of the family business, a theme that connects to the broader literature on family-business capital and succession.

The own-versus-lease policy should be revisited periodically rather than set once and forgotten. A business circumstances change: its growth opportunities wax and wane, its cost of capital moves, and the SLB market terms evolve. A policy that made sense when the business had abundant high-return opportunities may need revisiting if those opportunities are exhausted, and a business that leased everything in a capital-hungry phase may rationally buy in a cash-rich one. The policy is therefore a living decision, reviewed as conditions change, rather than a permanent commitment, and the discipline lies in revisiting it deliberately rather than allowing inertia to settle the question.

20. Limitations and Directions for Further Research

This paper is framework-oriented and relies on indicative data, and its conclusions are directional rather than precise. The capitalisation rates, redeployment returns and lease terms are calibrated to observable conditions but are not empirical estimates, and they vary materially across asset types, locations and covenants. The accounting and tax effects are described in general terms and require professional advice for any specific transaction, particularly given the evolving corporate tax framework in the region.

Several extensions would strengthen the analysis. An empirical study of realised SLB capitalisation rates across GCC asset types and covenants would replace the indicative ranges with data. A detailed analysis of the after-tax economics under the specific corporate tax rules now applying would sharpen the tax dimension that this paper treats in general terms. And a study of how SLB structures have performed for sellers through a downturn, when the fixed rent obligation is most onerous, would test the resilience of the technique in the conditions where its risks are greatest. Each is a natural subject for a later paper in this series.

Appendix A. Base Case Assumptions

Table 6. Base Case Assumptions

Parameter	Value	Parameter	Value
Base capitalisation rate	7.0%	Base redeployment return	15-20%
Lease term	15-25 years	Rent escalation	Fixed / capped
Transaction costs	~3%	Tax on gain	Per applicable rules
Repurchase option	Negotiated	Lease type	Triple-net common
Corporate tax	Rent deductible	Compliant route	Ijara
Asset value (Case A)	AED 400m	Currency	AED (USD peg)

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

Appendix B. Glossary of Terms

Table 7. Glossary of Key Terms

Term	Definition
Sale-and-leaseback	Sale of an owned asset with simultaneous lease-back to the seller.

Capitalisation rate	The rate at which rent is capitalised to value the asset.
Redeployment return	The return the business earns on the released capital.
Triple-net lease	A lease where the tenant bears repairs, insurance and outgoings.
Repurchase option	A right for the seller to buy the asset back in future.
Right-of-use asset	The leased asset recognised on the balance sheet under lease accounting.
Ground lease	A structure separating ownership of land from the building.
Build-to-suit	An investor funds a purpose-built asset leased to the occupier.
Ijara	A Shariah-compliant lease used to effect a compliant SLB.
Covenant	The credit strength of the tenant backing the lease rent.

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