Co-Investing Alongside UAE Developers: A Structuring Guide for Family Offices

A practitioner's framework for family offices co-investing in United Arab Emirates real estate development on terms that align them with the developer, set out through structure, waterfall and an alignment checklist.

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ABSTRACT

Family offices in the Gulf and beyond increasingly want exposure to United Arab Emirates real estate, but they are rightly wary of two extremes. Funding a developer through a blind-pool fund cedes control and adds a layer of fees, while building a development capability in-house demands expertise and a deal flow that most single-family offices do not possess. Direct co-investment alongside an established developer sits between these poles, and it has become one of the most requested structures in the region. This paper sets out a practitioner's framework for doing it well. It treats the co-investment not as a single negotiation but as a structure whose components, the holding vehicle, the distribution waterfall, the governance rights and the exit mechanics, must be assembled so that the developer and the family office want the same outcomes. The paper presents an illustrative co-investment structure, a four-tier distribution waterfall, an alignment checklist and a set of sensitivity figures that show how net returns respond to the promote, the hurdle and the governance terms. It then offers a staged execution roadmap from sourcing to monitoring. The argument throughout is that alignment is engineered, not assumed: the terms that protect a minority co-investor are the same terms that make a good developer comfortable, because both depend on a structure in which reward follows performance. Nothing in this paper is investment advice, and all figures are illustrative.

JEL Classification: G11, G23, G32, R33, L85

Keywords: co-investment, family offices, real estate development, United Arab Emirates, GCC, distribution waterfall, alignment of interests, joint ventures, private real estate

1. INTRODUCTION

A family office that has decided it wants more United Arab Emirates real estate in its portfolio faces a question that is less about which asset to back than about how to hold it. The choice of vehicle, the choice of partner and the choice of terms will do more to determine the eventual return than the choice of building. This is the part of the decision that families most often underweight. They spend their diligence on the location, the developer's track record and the projected yield, and then accept a structure drafted by the developer's counsel without asking whether it aligns the two sides or merely transfers risk to the party with the smaller cheque.

Direct co-investment alongside a developer has become the structure of choice for families that want this exposure. It avoids the fee drag and the loss of control that come with committing to a blind-pool fund, and it avoids the expertise gap and the concentration that come with developing alone. It lets a family put capital next to a sponsor who sources, builds and manages, while keeping a defined set of rights and a defined share of the upside. In the United Arab Emirates, where the development market is deep, where the largest developers are well capitalised and where the legal venues at the Dubai International Financial Centre and the Abu Dhabi Global Market support sophisticated joint-venture structures, the conditions for good co-investment are unusually favourable. The structure is only as good as its terms, however, and the terms are where families most often give away value.

This paper supplies a structuring framework for the family office that wants to co-invest well. It is written for the principal, the family-office chief investment officer and the adviser who must turn a relationship with a developer into a defensible structure. It treats co-investment as an exercise in engineering alignment: the work is to build a vehicle, a waterfall and a set of rights in which the developer earns most when the co-investor earns most, and in which neither party can prosper at the expense of the other. The paper sets out each component, shows how the components interact and distils the analysis into a checklist and an execution roadmap.

Three caveats frame the analysis. First, this is a structuring and orientation document, not investment, legal or tax advice, and nothing in it is a recommendation to enter any transaction or to use any particular structure. Second, every figure and table is illustrative. The waterfalls, the return sensitivities and the scores are stylised to make the mechanics legible; they are not forecasts, benchmarks or sourced market data, and they should not be read as such. Third, any co-investment in the United Arab Emirates requires qualified local legal, tax and regulatory advice, because the structuring choices that matter most, the vehicle, the security and the enforcement path, turn on facts and on advice specific to the deal.

The paper makes three contributions. First, it assembles the scattered components of a developer co-investment, the vehicle, the waterfall, the governance rights, the exit, into a single legible structure. Second, it makes the central claim concrete: that the terms which protect a minority co-investor are the same terms that a good developer should welcome, because both rest on the principle that reward must follow performance. Third, it translates the framework into an alignment checklist and a staged execution roadmap that a family office can use directly.

The remainder of the paper is structured as follows. Section 2 reviews the relevant literature on co-investment, the alignment of interests and private real estate, and states the propositions that the analysis develops. Section 3 sets out the data and the illustrative method. Section 4 presents the structuring framework in the order of the propositions: the structure, the waterfall, the alignment terms, the governance rights and the exit. Section 5 offers a staged execution roadmap. Section 6 sets out the risks, the caveats and the limitations. Section 7 concludes. Three appendices record the base-case assumptions, an alignment checklist and a glossary.

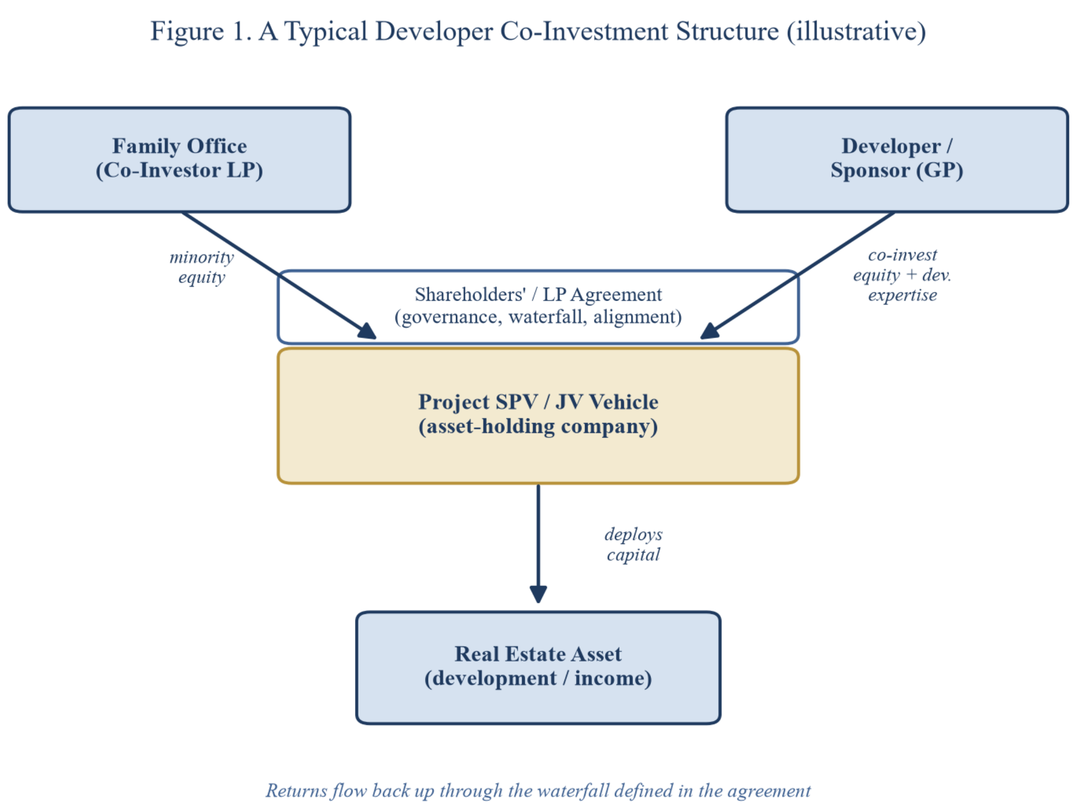


Figure 1. A Typical Developer Co-Investment Structure (illustrative)

Illustrative schematic. The family office takes minority equity in a project vehicle alongside the developer, with their relationship governed by a shareholders' or limited-partner agreement. Not sourced data.

1.1 Why the Question Matters Now

The case for setting out this framework now, in 2026, rests on a convergence of conditions in the Gulf. The United Arab Emirates real estate market has matured through a long expansion, with a deep development pipeline across residential, commercial, hospitality and logistics, and the largest developers are better capitalised and more institutional than at any point in the market's history. At the same time, the region's family offices have grown in both number and sophistication, with a generation of principals and professional chief investment officers who want direct access to assets rather than exposure through intermediated funds alone. The supply of high-quality sponsors and the demand from capable family offices have met, and the co-investment is the natural meeting point.

The regulatory and legal environment has matured in parallel. The common-law financial centres at the Dubai International Financial Centre and the Abu Dhabi Global Market provide venues in which sophisticated joint-venture and co-investment structures can be established, governed by familiar law and supported by independent courts, while onshore reforms have widened the options for holding and structuring real estate. A family office structuring a co-investment in 2026 has a richer menu of vehicles and protections than its predecessor a decade ago, which raises the stakes on choosing well: the tools exist to engineer genuine alignment, so a poorly aligned structure is a failure of design rather than of circumstance.

There is also a competitive dimension. As more family offices seek co-investment, the developers worth backing can be selective about their capital partners, and the terms on offer reflect the balance of supply and demand for both capital and access. A family office that understands the structure, that knows which terms protect it and which are negotiable, and that can move quickly and credibly, is a more attractive partner than one that must learn the mechanics on the deal. The framework in this paper is, among other things, a way for a family office to become the kind of co-investor that good developers want.

2. LITERATURE REVIEW AND PROPOSITIONS

The framework draws on three bodies of work: the literature on co-investment and its economics; the literature on the alignment of interests between principals and agents in private capital; and the literature on private real estate and joint-venture structuring. Each contributes a piece of the argument, and together they yield the propositions that the rest of the paper develops.

2.1 Co-Investment and Its Economics

A growing literature examines co-investment, the practice by which an investor places capital directly into a deal alongside a sponsor rather than only through a commingled fund. The recurring finding is that co-investment can improve net returns by reducing the fee and carry load on the co-invested portion of capital, but that the benefit is conditional. Fang, Ivashina and Lerner (2015) show that co-investments do not uniformly outperform, and that selection and timing matter; the average co-investment is not obviously superior to a fund commitment once the quality of the deals offered for co-investment is taken into account. The lesson for a family office is that the fee saving is real but is not the whole story, and that the terms and the selection of the specific deal do more to determine the outcome than the co-investment label alone.

The literature also examines what a co-investor brings and what it gives up. Co-investment concentrates capital in a single asset, which raises idiosyncratic risk relative to a diversified fund, and it shifts the burden of diligence and monitoring onto the co-investor, who can no longer rely wholly on a manager. In exchange, the co-investor gains control, transparency and the ability to express conviction in a specific asset rather than a blind pool. For a family office with a long horizon and a tolerance for concentration, this trade can be attractive, but only where the office has, or can buy, the capacity to diligence and to monitor.

2.2 Alignment of Interests in Private Capital

The second literature concerns the alignment of interests between the party that provides capital and the party that deploys it. The agency problem is classical: Jensen and Meckling (1976) frame the costs that arise when ownership and control are separated, and the private-capital literature applies this directly to the relationship between investors and sponsors. The instruments that align the two sides are well understood. A meaningful co-investment by the sponsor, so that the sponsor has its own capital at risk, is the first and most important. A performance fee, or promote, that is earned only above a genuine return hurdle is the second, because it ties the sponsor's reward to the investor's outcome. Gompers and Lerner (1999) document how the structure of these incentives shapes behaviour, and the literature on private real estate confirms that the same instruments govern the developer relationship.

The literature also warns against the appearance of alignment without its substance. A promote that is earned from the first dollar, with no hurdle, rewards the sponsor for deploying capital rather than for generating returns. Fees layered at multiple levels, on assets, on development, on management, can quietly transfer the economics of a deal from the investor to the sponsor regardless of performance. The contribution of this literature to the present paper is the principle that alignment must be engineered into the terms and then tested, because a structure can look aligned and behave otherwise.

2.3 Private Real Estate and Joint-Venture Structuring

A third strand concerns the structuring of private real estate joint ventures specifically. The standard form is a vehicle, a special-purpose company or limited partnership, that holds the asset, into which the capital partner and the operating partner contribute on agreed terms, and out of which returns are distributed through a waterfall. The literature on real estate joint ventures emphasises that the waterfall, the schedule that determines who receives cash and in what order, is the heart of the economic bargain, and that the governance terms, the reserved matters, the information rights and the exit mechanics, are what protect a minority capital partner who cannot manage the asset day to day. Geltner and others, in the standard treatment of commercial real estate analysis, set out how the waterfall and the leverage interact to shape the capital partner's risk and return.

This literature also frames the choice a family office faces between developing alone, committing to a fund and co-investing, and it stresses that the right answer depends on the office's capacity, its appetite for concentration and the quality of the sponsor relationship available to it. It is from this literature that the paper takes the structure of its framework: vehicle, waterfall, governance, exit.

2.4 Synthesis and Propositions

Taken together, these literatures yield five propositions that the rest of the paper develops and illustrates.

Proposition 1. A developer co-investment is best understood not as a single negotiation but as an assembled structure, vehicle, waterfall, governance and exit, whose parts must fit together.

Proposition 2. The distribution waterfall is the heart of the economic bargain, and a real return hurdle ahead of the sponsor's promote is the single most important alignment term.

Proposition 3. The terms that protect a minority co-investor are the same terms a good developer should welcome, because both rest on the principle that reward follows performance.

Proposition 4. Governance rights should be calibrated to cheque size and to the co-investor's capacity to use them, not maximised; rights that cannot be exercised are not protection.

Proposition 5. The exit mechanics and the development J-curve must be underwritten at the outset, because illiquidity and timing, not headline return, are where co-investors are most often disappointed.

3. DATA AND METHODOLOGY

This study is analytical and descriptive rather than empirical. It builds a structuring framework and a set of illustrative figures that make the mechanics of a developer co-investment legible. It does not estimate a model from data, report returns from a sample of transactions or benchmark named structures. Its purpose is to give a family office a way of reasoning about how to assemble and test a co-investment, and the figures exist to illustrate that reasoning, not to forecast outcomes.

3.1 The Structuring Framework

The framework has four components, which correspond to the four parts of a co-investment that a family office must get right. The first is the structure itself: the vehicle that holds the asset and the way the two parties contribute to it. The second is the distribution waterfall: the schedule that determines who receives cash, in what order and on what conditions. The third is the set of alignment and governance terms: the sponsor co-investment, the hurdle, the reserved matters, the information rights and the fee discipline. The fourth is the exit: the mechanics and the timing through which the co-investor realises its capital. The paper presents each component in turn and then shows, through the sensitivity figures, how they interact.

3.1a What the Framework Does and Does Not Do

It is important to be clear about scope. The framework is a tool for reasoning about how to assemble and test a co-investment structure. It is not a valuation model, it does not price a specific asset and it does not produce a recommended set of terms for any transaction. The terms that are right for a deal depend on the asset, the sponsor, the leverage and the negotiating positions of the parties, and on legal and tax advice specific to the structure. What the framework offers is a disciplined way to ask the right questions and to see how the answers move the economics.

The choice of an analytical, illustrative method rather than an empirical one is deliberate. Transaction-level terms for private real estate co-investments in the Gulf are not publicly and reliably available in a form that would support robust estimation, and a family office's decision does not turn on an average drawn from such data but on the structure of the specific deal in front of it. A framework that clarifies the mechanics is more useful, and more honest, than a pseudo-empirical figure that implies a precision the underlying data cannot support.

3.2 Assumptions and Their Justification

The stylised inputs used in the figures, the hurdle rate, the promote splits, the J-curve shape and the comparative scores, are illustrative calibrations chosen to make the structure legible and to sit within ranges that a practitioner would recognise as plausible for 2026 Gulf conditions. They are not sourced from any dataset and are not forecasts. A hurdle in the region of eight per cent and a promote split of the order of eighty to twenty above it are used because they are common reference points, not because they are recommended or typical of any particular deal. The full set of assumptions is recorded in Appendix A so that a reader can see exactly what drives each figure and can substitute its own.

Parameter	Illustrative value	Role in the framework
Preferred return (hurdle)	8% per annum	Threshold the co-investor reaches before the sponsor's promote
Promote / carried interest	20% above hurdle	Sponsor's performance share of profits above the hurdle
Sponsor co-investment	5–10% of equity	The sponsor's own capital at risk in the deal
Co-investor stake	Minority (10–40%)	Family office's equity share in the project vehicle
Development horizon	3–5 years	Period from commitment to realisation through the J-curve
Catch-up	Sponsor catch-up to target split	Tier between hurdle and full promote split

Table 1. Base-Case Assumptions for the Structuring Framework

Indicative, illustrative calibrations used to make the structure legible; not forecasts, recommendations or sourced data. See Appendix A.

4. THE STRUCTURING FRAMEWORK

This section presents the framework in the order of the propositions. It first sets out the structure and the vehicle, then the distribution waterfall, then the alignment and governance terms, and finally the exit. Throughout, the figures are illustrative and exist to show how the mechanics behave, not to forecast any outcome.

4.1 The Structure and the Vehicle

The first decision is the vehicle. In almost every developer co-investment, the asset is held in a special-purpose vehicle, a company or a limited partnership, into which the family office and the developer contribute equity and which carries any project-level debt. Holding the asset in a dedicated vehicle ring-fences it from the other activities of both parties, gives the co-investor a clean claim on a defined asset rather than an exposure to the developer's balance sheet, and provides the framework within which governance and distributions are defined. The vehicle is established in a jurisdiction chosen for legal certainty and for the enforceability of the parties' rights, which in the United Arab Emirates often means a common-law venue such as the Dubai International Financial Centre or the Abu Dhabi Global Market, or an onshore structure where the asset and the regulatory position require it. The choice is a matter for local advice and turns on the asset, the financing and the tax position of the parties.

The contributions to the vehicle define the starting alignment. The family office contributes capital and takes a minority equity stake. The developer contributes capital as well, its co-investment, and its development expertise, its team and its pipeline, and in exchange earns a management role and a promote on the upside. The single most important feature of the structure, before any waterfall is drawn, is that the developer has its own capital in the deal. A developer that contributes nothing and earns only fees and a promote is not aligned with the co-investor; a developer that stands to lose its own money if the project fails is. Figure 1 sets out the typical shape: two capital providers, a governing agreement and a vehicle that holds the asset.

A feature that distinguishes the United Arab Emirates from many development markets, and that shapes the structure, is the strength and capitalisation of the largest developers. Where a co-investor partners with a well-capitalised sponsor, the sponsor's own balance sheet and reputation provide a layer of comfort that a thinly capitalised operator cannot. This does not remove the need for alignment terms, but it changes their emphasis: with a strong sponsor the co-investor's concern is less the sponsor's solvency than the fairness of the split and the protection of its minority position.

4.1a Choosing the Vehicle and the Venue

The vehicle and the venue are structural decisions that shape every right the co-investor will later rely on, and they deserve attention at the outset rather than acceptance of the developer's default. The two common-law centres, the Dubai International Financial Centre and the Abu Dhabi Global Market, both offer company and partnership forms that support co-investment, governed by law a foreign investor will recognise and supported by independent courts. An onshore vehicle may be necessary where the asset, the financing or the regulatory position requires it, and the trade-off between the certainty of a common-law venue and the practical requirements of holding the specific asset is exactly the kind of question on which qualified local advice is indispensable.

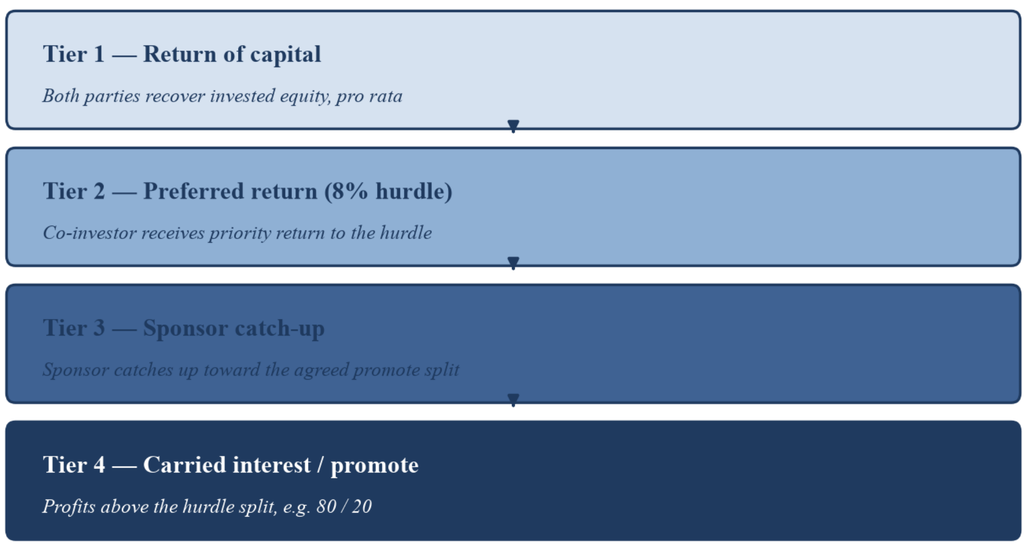
The choice between a company and a limited partnership turns on tax, on governance and on the parties' preferences. A company offers a familiar governance architecture of shares, a board and a shareholders' agreement; a limited partnership offers flexibility in how returns are allocated and is the form many investors associate with private capital. Neither is universally right. What matters is that the form chosen supports the waterfall, the reserved matters and the exit mechanics the parties intend, and that the co-investor's rights are enforceable in the chosen venue. A structure that looks elegant on paper but whose key protections are unenforceable in the relevant court is worse than a simpler structure whose protections hold.

4.2 The Distribution Waterfall

The waterfall is the heart of the economic bargain. It is the schedule that determines who receives cash, in what order, and on what conditions, as the project generates returns. A well-constructed waterfall aligns the two parties by ensuring that the sponsor's promote is earned only after the co-investor has received its capital and a minimum return; a poorly constructed one rewards the sponsor regardless of performance and quietly transfers value from the capital partner to the operator.

Figure 2 sets out a standard four-tier waterfall. The first tier returns invested capital to both parties, pro rata, so that no one earns a profit share until everyone has their money back. The second tier pays the co-investor a preferred return, a hurdle, here illustrated at eight per cent, before the sponsor participates in profits. The third tier is a catch-up, in which the sponsor receives a larger share until it has reached the agreed split of profits above the hurdle. The fourth tier splits the remaining profits in the agreed promote ratio, here illustrated at eighty to twenty in the co-investor's favour. The exact numbers are matters for negotiation; the principle is invariant. Cash fills each tier before the next begins, and the sponsor's outsized reward, the promote, sits at the top, reachable only when the co-investor has done well.

Figure 2. Illustrative Distribution Waterfall (four tiers)



Cash is distributed top to bottom; each tier fills before the next begins.

Figure 2. Illustrative Distribution Waterfall (four tiers)

Illustrative tiers. Cash is distributed top to bottom; each tier fills before the next begins. The hurdle and split shown are reference points, not recommendations. Not sourced data.

A simple worked example makes the mechanics concrete. Table 2 traces an illustrative case in which the co-investor and the sponsor have together invested equity, the co-investor is owed an eight per cent preferred return on its share, and profits above that hurdle are split eighty to twenty. The arithmetic is stylised, with round numbers chosen for clarity, but it shows the order in which cash flows and why the hurdle matters so much: until the co-investor has received its capital and its preferred return, the sponsor's promote is zero, and the sponsor earns its outsized share only on the profit that remains after the co-investor has been made whole.

Waterfall tier	Who receives	Illustrative cash

1. Return of capital	Co-investor and sponsor, pro rata	All invested capital returned first
2. Preferred return (8%)	Co-investor, to the hurdle	Co-investor reaches its 8% hurdle
3. Sponsor catch-up	Sponsor, toward 80/20 split	Sponsor catches up to the agreed split
4. Residual split (80/20)	Co-investor 80 / sponsor 20	Remaining profit shared in the promote ratio

Table 2. Worked Example of the Four-Tier Waterfall (illustrative)

Stylised sequence for clarity; not a forecast, a recommendation or sourced data. See Section 4.2.

The waterfall is where a family office should concentrate its negotiating effort, because small changes in its terms move the economics substantially. The presence and the level of the hurdle is the most important variable. A promote earned from the first dollar, with no hurdle, pays the sponsor for deploying capital rather than for generating returns, and it is the term most often slipped into a structure that otherwise looks fair. Figure 4 shows how the co-investor's net return responds to the promote and the hurdle: above the hurdle, a higher promote transfers more of each additional unit of return to the sponsor, while below the hurdle the co-investor keeps everything. The figure makes the point that the hurdle, not the headline promote percentage, is what protects the co-investor's downside.

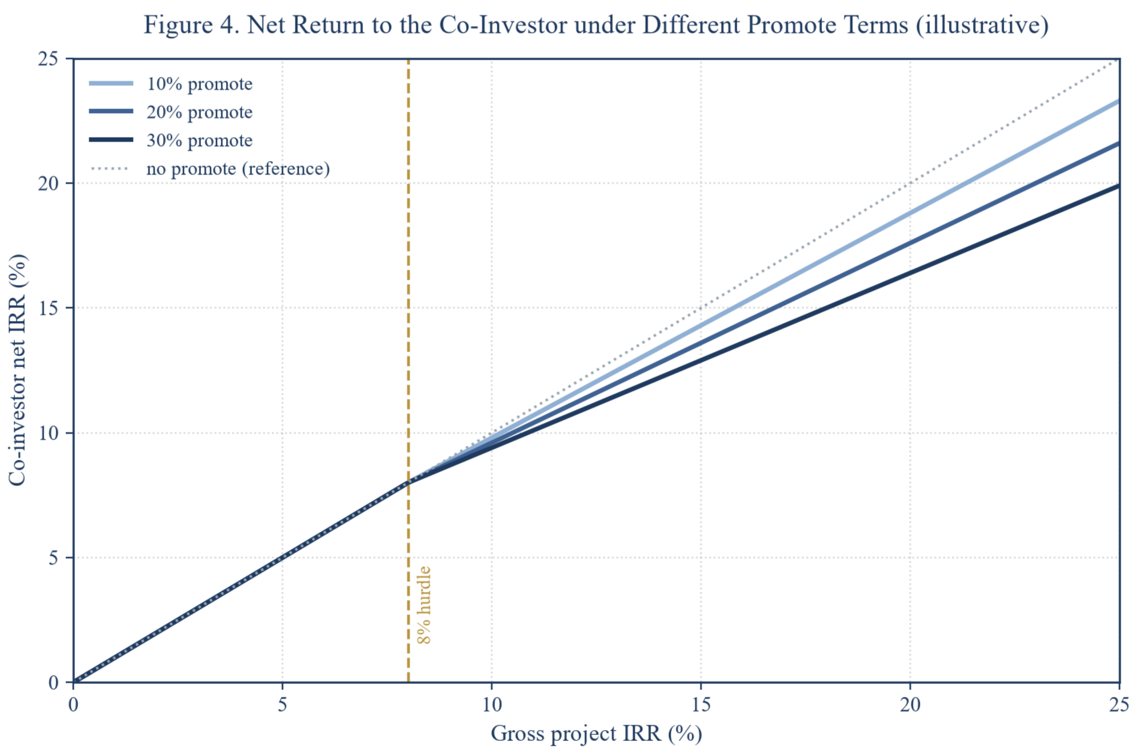


Figure 4. Net Return to the Co-Investor under Different Promote Terms (illustrative)

Illustrative relationship. Net return tracks gross return one-for-one below the hurdle and is shared above it; a higher promote bends the line down. Not a forecast.

4.3 Alignment: Engineering the Terms

Proposition 3 holds that the terms which protect a minority co-investor are the same terms a good developer should welcome. This is the central claim of the paper, and it is worth stating plainly why it is true. Each of the alignment terms rests on the principle that reward follows performance, and a developer confident in its own ability to perform has no reason to resist a structure that pays it well precisely when the project succeeds. A developer that resists a real hurdle, an independent valuation or transparent reporting is, in effect, telling the co-investor that it expects to be paid whether or not the project performs, which is exactly the signal a careful co-investor should heed.

The alignment terms fall into a small number of categories. The first is the sponsor's own co-investment, already discussed: capital at risk is the foundation of alignment. The second is the promote-and-hurdle structure: a promote earned only above a genuine hurdle ties the sponsor's reward to the co-investor's outcome. The third is valuation and reporting: an independent valuation at agreed intervals and regular, transparent reporting prevent the sponsor from controlling the numbers on which its own promote is calculated. The fourth is fee discipline: fees charged at the asset, development and management levels should be transparent, benchmarked and, where appropriate, capped, because layered fees can transfer the economics of a deal regardless of the waterfall. Figure 3 sets out these terms and their relative weight, distinguishing the core terms that no co-investor should concede from the important terms that strengthen a position.

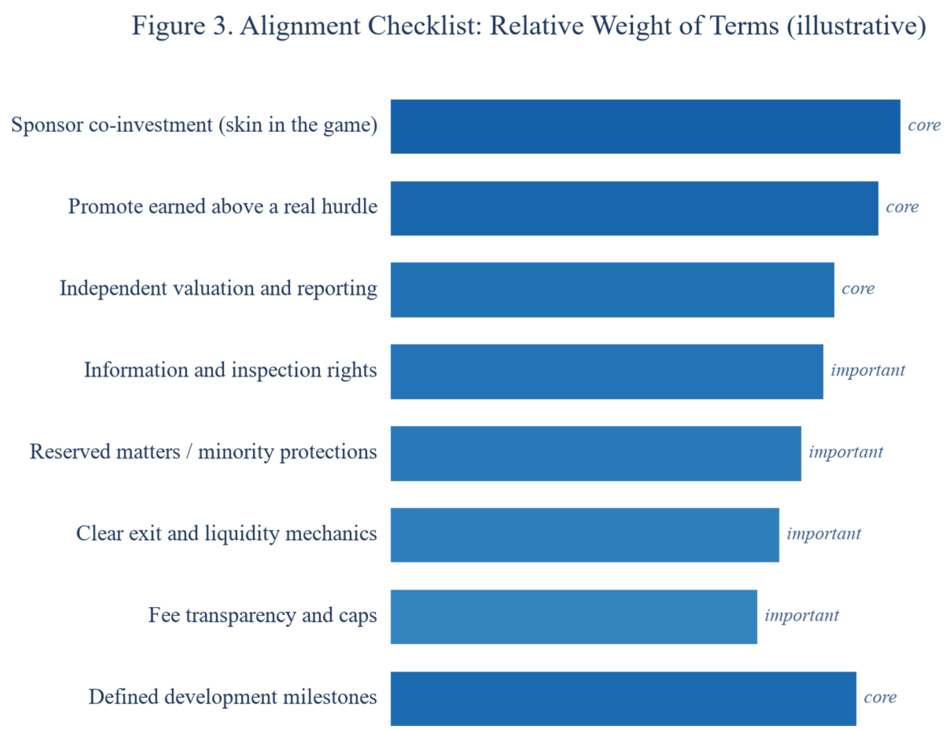


Figure 3. Alignment Checklist: Relative Weight of Terms (illustrative)

Illustrative weighting. Core terms are those a co-investor should not concede; important terms strengthen the position. Weights are stylised, not measured.

It is worth dwelling on fee discipline, because it is where alignment most often leaks. A structure can have an impeccable waterfall and still disadvantage the co-investor if the sponsor charges a development fee, a project-management fee and an asset-management fee that together consume a large share of the project's cash before the waterfall even begins. Fees are not illegitimate; a developer that does real work should be paid for it. The discipline is to ensure that fees compensate genuine work at market rates, that they are disclosed and benchmarked, and that they do not become a second, hidden promote that pays the sponsor regardless of performance. A co-investor should model the structure with fees included and ask what return it earns after every fee, not before.

4.3a Related-Party Transactions and Conflicts

A particular source of misalignment, and one that a checklist must catch, is the related-party transaction. A developer that co-invests with a family office may also control the contractor that builds the project, the agent that sells or lets it, the management company that operates it and the financing counterparty that lends to it. Each of these relationships is an opportunity for value to leak from the project vehicle, in which the co-investor shares, to an entity in which the developer has a larger or sole interest. The leakage need not be improper to be real: a contract awarded to an affiliate at a fair price still concentrates the project's spending with a party the sponsor controls, and a contract awarded above market transfers value directly.

The discipline is not to prohibit related-party dealings, which are often unavoidable and sometimes efficient, but to govern them. The co-investor should require that material related-party transactions are disclosed, are entered on arm's-length terms, and, above a threshold, are subject to the co-investor's consent as a reserved matter. Independent benchmarking of affiliate contracts, and the right to see the comparison, turns a potential conflict into a managed one. A developer confident that its affiliates offer fair value should have no difficulty agreeing to disclosure and benchmarking; resistance to either is, once again, a signal worth reading.

4.4 Governance Rights

Proposition 4 holds that governance rights should be calibrated to cheque size and to the co-investor's capacity to use them, not maximised. A minority co-investor cannot and should not manage the asset day to day; that is the developer's role and the reason the co-investor partnered with it. What the co-investor needs is a defined set of rights that protect its position without obstructing the developer's ability to do its job. Figure 6 arranges these rights along a ladder from the lightest to the heaviest, and the right rung depends on the size of the cheque and the nature of the relationship.

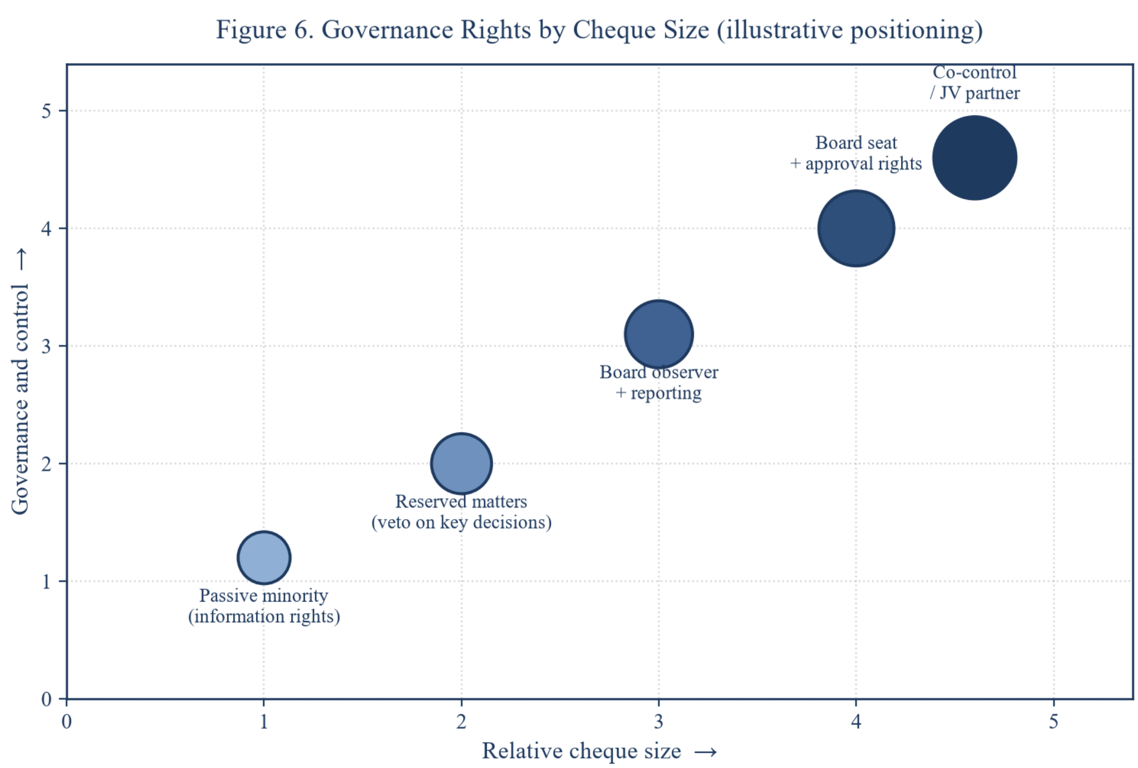


Figure 6. Governance Rights by Cheque Size (illustrative positioning)

Illustrative positioning. Larger cheques typically command heavier governance rights; the right level depends on capacity to exercise them. Not a rule.

At the lightest end are information and inspection rights: the right to receive regular reporting and to inspect the books, which every co-investor should have. Above these sit reserved matters: a defined list of major decisions, such as taking on new debt, selling the asset, changing the business plan or related-party transactions, that require the co-investor's consent. Reserved matters are the most important governance protection for a minority co-investor, because they prevent the developer from making fundamental changes that affect the co-investor's risk without its agreement, while leaving day-to-day management with the developer. Heavier still are board observer rights, board seats and, at the top, co-control, which are appropriate only for the largest cheques and the closest partnerships. The discipline is to take the rights the co-investor can actually exercise. A board seat that the family office has no capacity to staff with a competent director is worth less than a well-drafted list of reserved matters that it can enforce.

Two further governance terms deserve emphasis. The first is protection against dilution: pre-emption rights that let the co-investor maintain its stake if further equity is raised, and anti-dilution protection where appropriate. The second is the deadlock and exit mechanism, discussed below, which determines what happens when the parties disagree or when one wishes to leave. These are not glamorous terms, but they are the ones that determine whether a co-investor is protected when the relationship is tested.

4.5 The Exit and the J-Curve

Proposition 5 holds that the exit mechanics and the development J-curve must be underwritten at the outset. A development co-investment is illiquid by nature: capital is committed, drawn down through construction, and returned only when the asset is let, sold or refinanced. Figure 7 illustrates the resulting cumulative cash-flow profile, the J-curve, in which the co-investor is in a net cash-outflow position through the construction period and moves into profit only as the asset is realised. A co-investor that underwrites only the headline return, without internalising the years of negative cash flow and illiquidity that precede it, is the co-investor most often disappointed, not because the return was wrong but because the journey to it was longer and bumpier than expected.

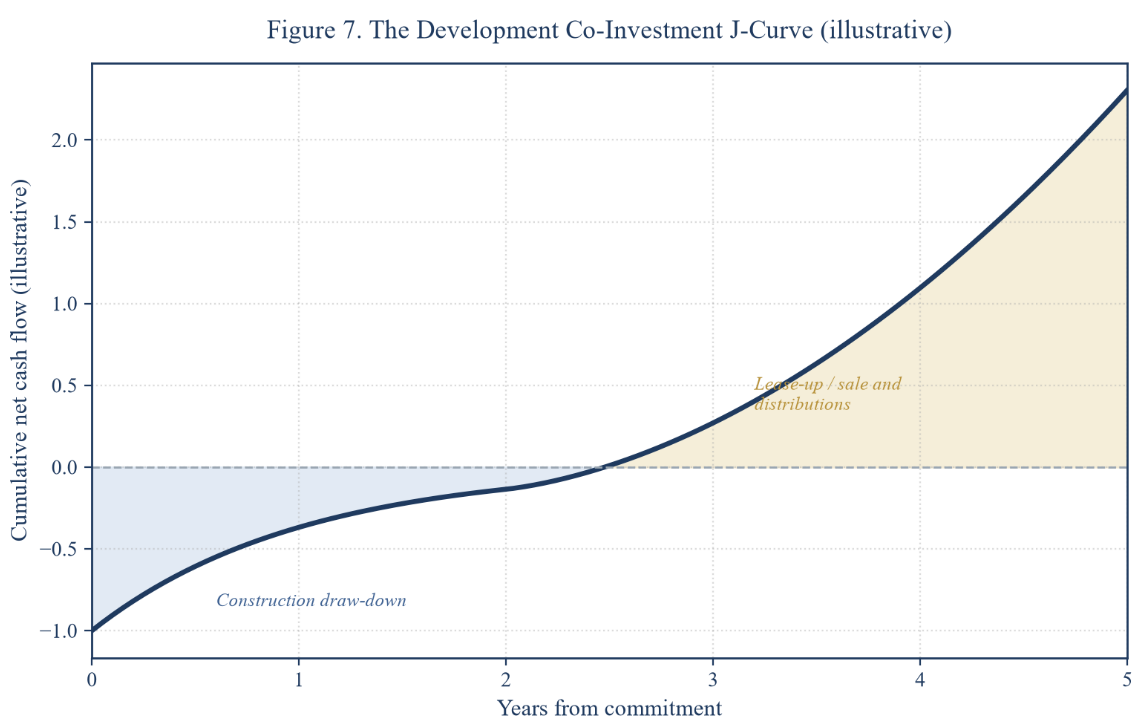


Figure 7. The Development Co-Investment J-Curve (illustrative)

Illustrative profile. The co-investor draws down through construction and recovers capital and profit on realisation. Shape and timing are stylised, not forecast.

The exit mechanics themselves should be defined at the outset, not left to be negotiated when the parties may disagree. The standard tools are well established. A defined investment horizon, after which a sale process may be triggered, gives the co-investor a path to liquidity. Drag-along and tag-along rights protect each party in a sale: drag-along lets a majority bring a minority into a sale on the same terms, while tag-along lets a minority join a sale the majority initiates, so that neither is stranded. A buy-sell or shoot-out mechanism provides a way to resolve a deadlock by letting one party offer to buy out the other at a price it must also be willing to accept. And a right of first offer or first refusal governs what happens if one party wishes to sell its stake. The point is not that every structure needs every tool, but that the exit path should be clear before capital is committed.

It is worth being candid that the exit is the part of a co-investment where a family office has least control and most exposure. The developer controls the asset and the timing of its realisation, the market controls the price, and the co-investor, as a minority, controls only the rights it negotiated at the outset. This is why the exit mechanics belong in the term sheet from the first conversation, not in a side letter at the end.

4.6 Co-Investment in Context: The Alternatives

It is useful to place direct co-investment against the alternatives a family office could choose, because the right structure depends on the office's capacity and appetite, not on the merits of co-investment in the abstract. Figure 5 compares direct co-investment with committing to a fund and with developing alone across the dimensions that matter to a family office. The comparison is illustrative, but the pattern it shows is robust.

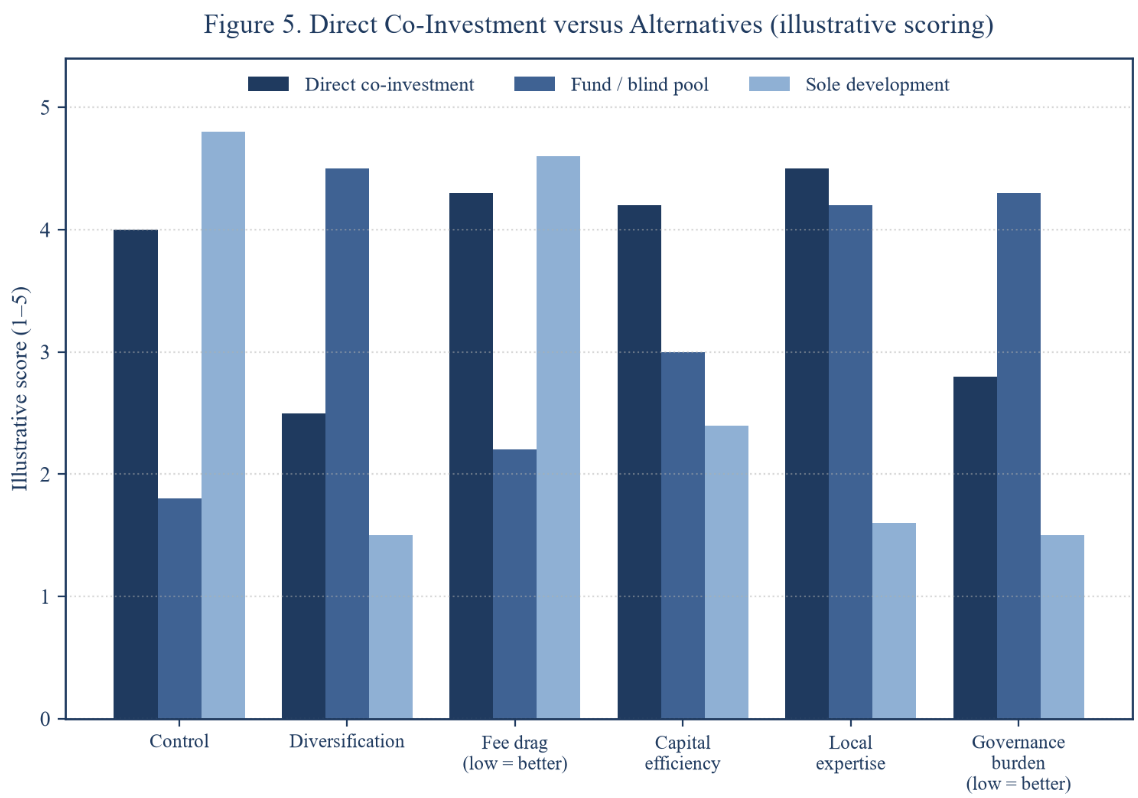


Figure 5. Direct Co-Investment versus Alternatives (illustrative scoring)

Illustrative scoring on a one-to-five scale. Co-investment trades diversification for control and lower fees; a fund trades control for diversification. Not measured.

Direct co-investment offers control and low fee drag at the cost of diversification and a heavier diligence and monitoring burden. A fund offers diversification and a manager who does the work, at the cost of control and a double layer of fees on the co-invested capital it might otherwise hold directly. Developing alone offers the most control and the lowest fees but demands an expertise and a deal flow that most single-family offices lack, and it concentrates risk most severely. For a family office with conviction in a specific asset, a strong sponsor relationship and the capacity to diligence and monitor, direct co-investment is often the best of the three. For an office that lacks that capacity or wants diversification, a fund may be the better route. The framework does not declare a universal winner; it clarifies the trade so that the office can choose deliberately.

4.7 From One Deal to a Programme

A single co-investment is a transaction; a series of them is a programme, and the family office that intends to co-invest repeatedly should think about the portfolio as well as the deal. The concentration risk of any one co-investment is bearable when it sits within a diversified set, so an office building a co-investment book should spread its commitments across sponsors, across asset types and across vintages, rather than committing its whole real-estate allocation to one developer or one project. Diversifying across vintages, committing over several years rather than all at once, is especially important in development, where returns are cyclical and the timing of the entry into the cycle matters greatly to the outcome.

A programme also changes the relationship with sponsors. A family office that is a reliable, repeat co-investor, that decides quickly, behaves well through difficulty and honours its commitments, becomes a partner developers seek out, and the quality of the deals it is offered improves accordingly. The first co-investment is often the hardest to source and to structure; the discipline of doing it well, and of being a good partner through its life, is what earns the access that makes the subsequent ones better. The framework in this paper is therefore not only a guide to a single transaction but a foundation for a co-investment practice that compounds over time.

5. IMPLEMENTATION: A CO-INVESTMENT EXECUTION ROADMAP

The framework leads to a plan. This section sets out a staged roadmap for a family office executing a developer co-investment, from sourcing the opportunity to monitoring the asset after close. The sequence matters: diligence should precede structuring, structuring should precede legals, and governance should be designed for the life of the investment, not bolted on at close. Figure 8 sets out the stages.

Figure 8. Illustrative Co-Investment Execution Roadmap

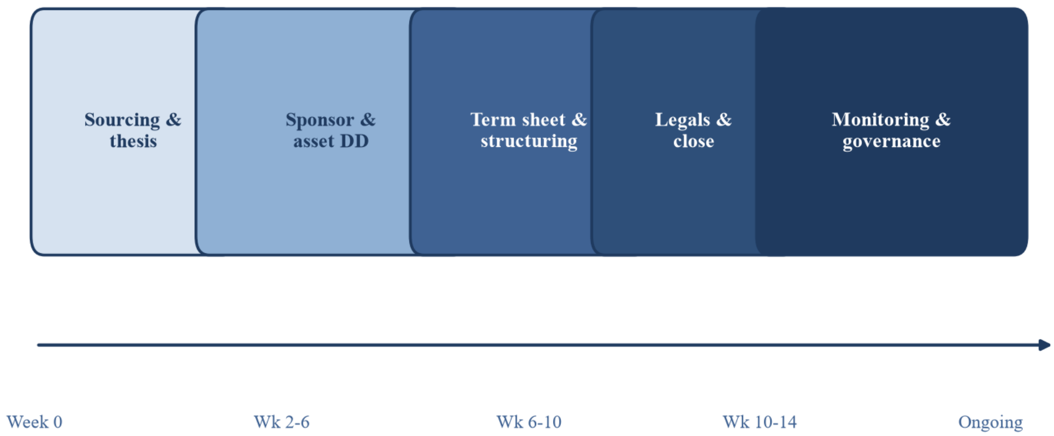


Figure 8. Illustrative Co-Investment Execution Roadmap

Illustrative sequencing of five phases. The timeline is stylised; real transactions vary widely. Not a schedule.

5.1 Sourcing and Thesis

The first phase is to source the opportunity and to form a clear thesis. Most family-office co-investments arise from an existing relationship with a developer or from a trusted intermediary, rather than from a cold process. The discipline at this stage is to be clear about why the asset fits the office's strategy, what the office brings beyond capital, and what return, net of all fees and adjusted for the illiquidity and concentration, would make the investment worthwhile. An office that cannot articulate its thesis crisply at the outset will struggle to negotiate terms that protect it later.

5.2 Sponsor and Asset Due Diligence

The second phase is diligence, and it has two objects: the sponsor and the asset. Sponsor diligence asks whether this is a developer the office wants to be locked into for years. It examines the track record, including failed and troubled projects, not only successes; the financial strength and the capital the sponsor will put at risk; the team that will actually run the project; and the sponsor's reputation among lenders, partners and counterparties. Asset diligence asks whether this specific project will perform: the location, the demand and supply for the product, the planning and permitting position, the construction plan and contractor, the financing, and the sensitivity of the return to cost overruns and delays, which are the two risks that most often impair development returns. A co-investor relies on the sponsor for execution, but it cannot delegate the judgement of whether to invest at all.

5.3 Term Sheet and Structuring

The third phase turns the thesis and the diligence into terms. This is where the framework of Section 4 is applied: the vehicle is chosen, the waterfall is negotiated, the alignment and governance terms are set, and the exit mechanics are agreed. The work is best done at the term-sheet stage, where the parties negotiate the economics and the key rights in a short document before incurring the cost of full legals. A co-investor that leaves the hurdle, the fees, the reserved matters and the exit to be discovered in the long-form agreement has lost the leverage to shape them. The term sheet should capture every term in the alignment checklist; the lawyers then render it into enforceable language.

5.4 Legals and Close

The fourth phase is the legal documentation and completion. The shareholders' or limited-partnership agreement, the subscription documents and any side letters are drafted to reflect the agreed term sheet, and the co-investor takes qualified local legal and tax advice on the vehicle, the security and the enforceability of its rights in the chosen jurisdiction. This is the point at which the abstract alignment of the term sheet becomes concrete and enforceable, and it is worth the cost of good counsel, because the value of a right is the value of being able to enforce it.

5.5 Monitoring and Governance

The fifth phase begins at close and lasts the life of the investment. Governance is not a document filed and forgotten; it is the regular work of receiving and reading the reporting, exercising the reserved-matter and consent rights when major decisions arise, attending to valuations, and staying close enough to the sponsor to know how the project is progressing. A co-investor that negotiates strong rights and then fails to exercise them is no better protected than one that never had them. The monitoring phase is also where the relationship that produced the first co-investment is tested and, if it goes well, where the next one is sourced.

5.6 Common Pitfalls and How the Roadmap Avoids Them

The roadmap is designed to avoid the pitfalls that recur in family-office co-investments. The first is conceding the hurdle, accepting a promote earned from the first dollar, which the term-sheet discipline of phase three guards against. The second is underestimating the fees, which modelling the structure net of all fees in phase one and three prevents. The third is taking governance rights the office cannot exercise, which the calibration of phase three and the monitoring discipline of phase five address. The fourth is underwriting the headline return without internalising the J-curve and the illiquidity, which the thesis discipline of phase one and the exit design of phase three counter. The fifth is failing to diligence the sponsor's failures as well as its successes, which phase two requires. None of these pitfalls is exotic; each is avoided by following the sequence rather than short-cutting it.

6. RISKS, CAVEATS AND LIMITATIONS

A structuring framework of this kind carries risks and limitations that a careful reader should weigh. This section sets them out plainly.

6.1 The Limits of an Illustrative Framework

The framework and every figure in this paper are illustrative. The waterfalls, the return sensitivities, the checklist weights and the comparative scores are stylised to make the mechanics legible; they are not forecasts, benchmarks or sourced data, and a reader who treated them as such would misuse them. The right terms for a specific co-investment depend on the asset, the sponsor, the leverage and the negotiating positions of the parties, and on legal and tax advice specific to the structure. The framework organises the questions; it does not answer them for any deal.

6.2 Concentration and Illiquidity Risk

A direct co-investment concentrates capital in a single asset and locks it up for years. This is the defining risk of the structure and the price of the control and the fee saving it offers. A family office that co-invests should size each position so that the concentration is bearable, should diversify across several co-investments rather than committing its whole real-estate allocation to one, and should not commit capital it may need before the natural exit. The J-curve in Figure 7 understates rather than overstates the discomfort, because a real project can stall in the trough longer than a stylised curve suggests.

6.3 Sponsor and Execution Risk

The co-investor relies on the sponsor to source, build and manage, and the sponsor's competence, integrity and financial strength are therefore the central risk. Alignment terms reduce this risk but do not remove it: a determined or distressed sponsor can damage a co-investor's position in ways that no contract fully prevents. Diligence on the sponsor, including its failures, and a sponsor co-investment large enough to matter, are the main mitigants, and a co-investor that cannot get comfortable with the sponsor should not rely on terms to compensate.

6.4 Structuring, Legal and Enforcement Risk

The value of every right in this paper depends on its enforceability, which depends on the vehicle, the jurisdiction and the quality of the drafting. A reserved-matter right that is unenforceable in practice, or an exit mechanism that cannot be triggered, is worth nothing. This is why the paper repeatedly defers to qualified local legal and tax advice: the structuring choices that determine whether a co-investor's rights are real, the vehicle, the security, the governing law and the enforcement path, are matters for advisers who know the specific facts and the specific jurisdiction.

6.5 Market and Cyclical Risk

Development returns are cyclical and leveraged, and a co-investment inherits both features. A downturn in the property market, a rise in financing costs or a construction-cost shock can impair a development return severely, and the leverage that magnifies the upside magnifies the downside. No structure protects a co-investor from the cycle; the most a structure can do is ensure that, within whatever the market delivers, reward follows performance and the co-investor is not disadvantaged relative to the sponsor.

6.6 Scope

Finally, this paper is deliberately limited in scope. It addresses the structuring of equity co-investments alongside developers and does not treat debt co-investment, mezzanine structures, fund commitments or the underlying valuation of real estate, each of which is a substantial subject in its own right. It is an orientation and structuring document for a specific decision, not a comprehensive treatment of private real estate.

7. CONCLUSION

A family office that wants United Arab Emirates real estate, that has found a developer it trusts and that has the capacity to diligence and to monitor, has in direct co-investment a structure that can serve it well. The structure is not, however, self-executing. Its value depends on terms, and the terms are where families most often give away what the relationship and the asset would otherwise earn them. This paper has argued that the way to co-invest well is to treat the co-investment as an assembled structure, vehicle, waterfall, governance and exit, and to engineer alignment into each component rather than to assume it.

The central claim is worth restating, because it is the test a family office can carry into every negotiation. The terms that protect a minority co-investor, a real hurdle ahead of the promote, a meaningful sponsor co-investment, independent valuation and transparent reporting, disciplined fees, reserved matters it can enforce and a clear exit, are the same terms that a confident, competent developer should welcome, because every one of them rests on the principle that reward follows performance. A developer that resists them is revealing something; a developer that embraces them is demonstrating the confidence that makes it worth backing. Alignment, in the end, is not a matter of trust but of structure, and structure is something a family office can build.

The framework and the figures in this paper are illustrative, and nothing in it is investment, legal or tax advice. Their purpose is to make the structure of a developer co-investment legible, so that a family office can ask the right questions, see how the answers move the economics, and assemble a structure in which it and the developer want the same thing. The asset will do what the market and the developer make it do; the structure is what the family office can control, and it is worth the effort of getting right.

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ABOUT THE AUTHOR

Chennakeshav (CK) Adya is an independent researcher and corporate-finance practitioner with more than twenty-five years of experience as both an operator and an investor across capital markets, private capital and cross-border transactions. His research focuses on capital structure, private markets, and the financing and development of real assets in the Gulf and beyond. He writes to make the structure of unfamiliar markets and transactions legible to international investors and family offices, combining a practitioner's view of how capital is actually raised, structured and deployed with the discipline of a structured, evidence-aware framework.

APPENDIX A. BASE-CASE ASSUMPTIONS

The table below records the stylised assumptions used in the figures and the framework. They are indicative, illustrative calibrations chosen to make the structure legible and to sit within ranges a practitioner would recognise as plausible for 2026 Gulf conditions. They are not sourced data, recommendations or forecasts, and a reader should substitute the terms of its own deal.

Parameter	Illustrative value	Notes
Preferred return (hurdle)	8% per annum, compounding	Reference point; real hurdles vary by asset and risk
Promote split above hurdle	80% co-investor / 20% sponsor	Illustrative; subject to negotiation
Sponsor catch-up	To agreed split above hurdle	Tier three of the waterfall
Sponsor co-investment	5–10% of total equity	Capital at risk; the foundation of alignment
Co-investor equity stake	10–40% (minority)	Drives the level of governance rights
Development horizon	3–5 years	Commitment to realisation
Promote sensitivity range	10% / 20% / 30%	Used in Figure 4
Governance ladder	Information → reserved matters → board → co-control	Used in Figure 6

Table A1. Full Base-Case Assumptions

Illustrative assumptions; see Section 3. Not sourced data, recommendations or forecasts.

APPENDIX B. CO-INVESTMENT ALIGNMENT CHECKLIST

The following checklist distils the framework into the questions a family office should answer before committing capital to a developer co-investment. It is a structuring aid, not advice, and it does not replace qualified local legal, tax and financial counsel.

- Does the developer have meaningful capital of its own at risk in the deal, not only fees and a promote?
- Is the sponsor's promote earned only above a genuine return hurdle, rather than from the first dollar?
- Have we modelled our net return after every fee, at the asset, development and management levels, not before?
- Are the asset and the sponsor's promote subject to independent valuation and transparent, regular reporting?
- Do we have a defined list of reserved matters, major decisions that require our consent, that we can enforce?
- Are our governance rights calibrated to what we can actually exercise, rather than maximised on paper?
- Have we underwritten the J-curve and the illiquidity, not only the headline return, and sized the position accordingly?
- Are the exit mechanics, horizon, drag, tag, buy-sell and pre-emption, agreed at the outset and in the term sheet?
- Have we diligenced the sponsor's failures and troubled projects, not only its successes?
- Have we taken qualified local legal and tax advice on the vehicle, the security and the enforceability of our rights?

APPENDIX C. GLOSSARY OF KEY TERMS

Catch-up. A waterfall tier in which the sponsor receives a larger share of cash until it has reached the agreed split of profits above the hurdle.

Co-investment. A direct investment into a specific asset alongside a sponsor, rather than through a commingled fund.

Drag-along right. A right allowing a majority holder to require a minority to join a sale on the same terms.

Hurdle (preferred return). A minimum return the co-investor receives before the sponsor participates in profits through its promote.

Promote (carried interest). The sponsor's performance share of profits, typically earned only above the hurdle.

Reserved matters. A defined list of major decisions that require the minority co-investor's consent.

Special-purpose vehicle (SPV). A dedicated company or partnership established to hold a single asset and ring-fence it.

Tag-along right. A right allowing a minority holder to join a sale initiated by the majority on the same terms.

Waterfall. The schedule that determines who receives cash, in what order and on what conditions, as a project generates returns.