

Land Acquisition Finance: Funding the Most Capital-Starved Stage of Development

Why the acquisition stage is the scarcest point on the development capital curve, and how developers and capital providers can structure around it in the 2026 GCC market.

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ABSTRACT

Abstract. Every property development begins with the purchase of land, and yet the acquisition stage is the point at which capital is hardest to raise and most expensive when it is found. The asset is at its least productive: it generates no income, carries no completed value, and offers a lender little beyond the bare plot and the sponsor's plan. Senior banks lend cautiously against raw or partially zoned land, advancing a fraction of the price and pricing the risk accordingly, which leaves a stubborn gap between what a developer must pay and what conventional debt and sponsor equity together provide. This paper sets out why that gap exists and how it can be closed. It maps the development capital curve and shows that the acquisition stage sits at its trough, then works through the instruments available to bridge it: senior land loans and their Islamic equivalents, mezzanine debt, preferred equity, joint ventures with landowners, and option or deferred-payment structures that let a developer control land without buying it outright. Each instrument is matched to the type of land it suits, from raw and un-zoned plots to serviced parcels and strategic landbanks, and to the cost of capital it carries in current Gulf conditions. The paper offers a decision framework that begins not with price but with the question of how the acquisition will be funded, and it argues that the choice of structure at this earliest stage shapes the economics of everything that follows. The analysis is illustrative and educational. It is calibrated to 2026 conditions in the United Arab Emirates and the wider Gulf Cooperation Council, and it is not investment, legal or financial advice.

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1. INTRODUCTION

A property development is, at its outset, a single large payment for which there is as yet nothing to show. The developer buys a plot of land, and from that moment until the first enabling works begin, the asset sits inert. It produces no rent, it has no completed buildings to value, and it offers a financier little more than the deeds, a zoning status that may or may not permit the intended use, and a business plan that depends on events still years away. This is the paradox of land acquisition finance. The purchase of land is the indispensable first act of every development, and yet it is the act for which capital is scarcest and dearest.

The scarcity is not an accident of any particular market. It follows from the economics of the asset. A senior lender prices a loan against the value it can recover if the borrower fails, and against the income

that will service the debt in the meantime. Raw land offers neither a reliable recovery value nor a cash flow. Its worth depends on a planning permission that has not been granted, an infrastructure connection that has not been laid, and a market that will not be tested until completion. Faced with this, the conventional bank does the rational thing. It lends a modest fraction of the purchase price, it prices the advance to reflect the uncertainty, and it asks the sponsor to carry the balance in equity. The developer is then left with a gap, and that gap is the subject of this paper.

The argument is built on a simple observation, illustrated in Figure 1. If one plots the availability of capital across the stages of a development, from land acquisition through planning, enabling works, vertical construction and finally handover, the curve rises steadily. Capital is most plentiful and cheapest when the asset is most complete and most productive, and it is scarcest and most expensive at the very beginning, when the developer most needs it to secure the site. The acquisition stage sits at the trough of the curve. Understanding why, and learning to structure around it, is the central skill of the early-stage developer and of the capital provider who chooses to operate there.

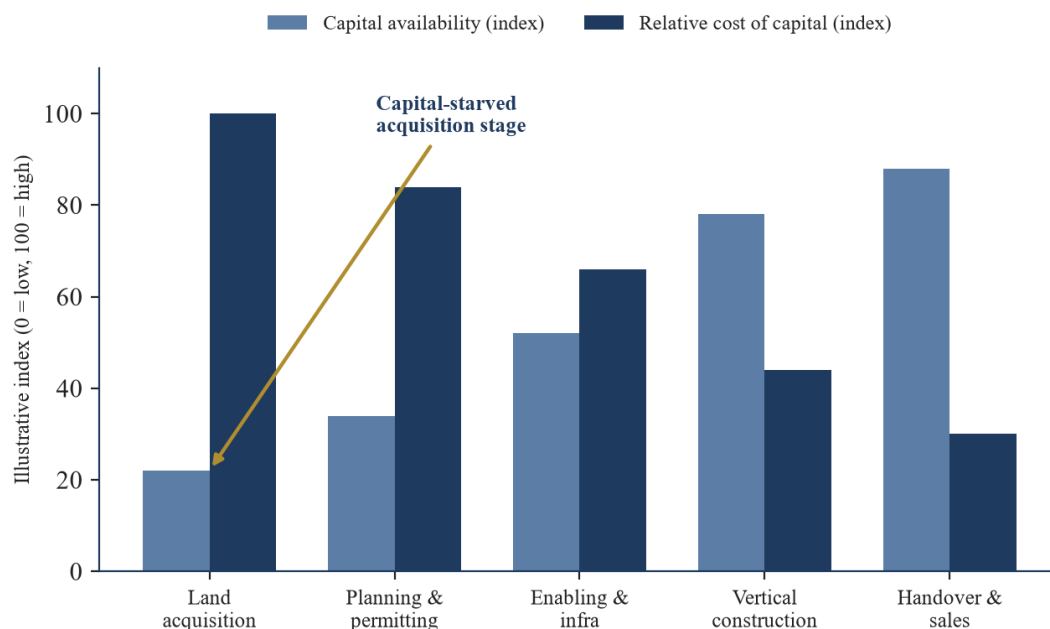


Figure 1. The Development Capital Curve

Illustrative. Capital availability rises and its cost falls as a development advances from land acquisition to handover. The acquisition stage sits at the trough, where availability is lowest and the cost of capital highest. The indices are stylised to make the relationship legible and are not market measurements.

This paper is written for two readers who sit on opposite sides of the same transaction. The first is the developer or sponsor, typically a founder, chief executive or head of capital markets at a Gulf real estate company, who must fund a land purchase and wants to understand the instruments available, what each costs, and which suits the particular plot in question. The second is the capital provider, the family office, private credit fund or co-investor weighing whether to lend or invest at the acquisition stage and on what terms. The two readers need the same map. The developer reads it to find capital, and the provider reads it to price the risk that the developer is asking it to take.

The calibration of the analysis reflects a specific vantage point. The figures, costs and structures are drawn from conditions in the United Arab Emirates and the wider Gulf Cooperation Council in 2026, a market in which land values remain elevated, bank appetite for raw-land lending is selective, and a deepening pool of private capital has begun to occupy the space that the banks decline. The numbers are illustrative rather than surveyed, chosen to make the relationships between instruments clear, and they should be read as a framework for reasoning rather than as a price list.

Three caveats frame everything that follows. First, this is an educational and analytical document. It explains how acquisition finance is structured and how the instruments compare, but it does not recommend any instrument, transaction or counterparty, and it is not investment, legal, tax or financial advice. Second, the calibrations in the figures and tables are stylised illustrations, not forecasts or sourced data, and any real transaction must be priced on its own facts. Third, the instruments described carry materially different risks, and their suitability depends on the plot, the sponsor and the market in ways that no general treatment can capture. A specific transaction requires specific professional advice.

The paper makes four contributions. First, it locates the acquisition stage precisely on the development capital curve and explains why it is the scarcest point. Second, it assembles the available instruments, from senior land loans to land options, into a single comparative framework. Third, it matches each instrument to the type of land it suits and to its cost of capital in current Gulf conditions. Fourth, it offers a decision framework that begins with the funding question rather than the price, and it shows how the structuring choice made at acquisition shapes the returns available at every later stage.

The remainder of the paper is organised as follows. Section 2 reviews the economic and institutional background and sets out the propositions that the analysis rests upon. Section 3 describes the method and the assumptions behind the illustrative calibrations. Section 4 examines the funding gap in detail and the cost of capital across instruments. Section 5 works through the instruments themselves, matching each to land type and structure. Section 6 presents the decision framework. Section 7 considers risks, mitigants and the position of acquisition finance within the wider capital stack. Section 8 concludes.

2. BACKGROUND AND PROPOSITIONS

The difficulty of financing land is not a peculiarity of real estate. It is an instance of a general problem in the financing of assets that are valuable only in prospect. This section sets out the bodies of thought that explain the problem and draws from them a set of propositions that the rest of the paper applies.

2.1 Why Land Is Hard to Finance

The value of a parcel of development land is not the value of the land as it stands. It is the value of what the land may become once it has been zoned, serviced and built upon, discounted for the time, cost and risk of getting there. This is the residual theory of land value, long established in valuation practice: the worth of a site is the completed value of the scheme it can carry, less the cost of building that scheme and the developer's required profit. The residual is what remains for the land, and it is by nature a forward-looking and conditional figure.

A figure of this kind is a poor foundation for senior lending. The lender's claim is most valuable precisely when it is least needed, at completion, and weakest at the moment the loan is advanced, when the land is raw. If the project fails before planning is secured, the lender is left holding a plot whose residual value has collapsed, because the very contingencies that gave the land its worth have not come to pass. The rational response is to lend little, to lend dear, and to require the sponsor to absorb the first loss through a substantial equity contribution. This is why senior advances against raw land are modest as a share of price and why the cost of capital at acquisition is high.

The residual character of land value also makes that value unusually sensitive to the assumptions behind it. Because the residual is a difference between two large numbers, the completed value of the scheme and the cost of delivering it, a small change in either can produce a large change in what is left for the land. A modest fall in expected sales prices, or a modest rise in build costs, can erase a substantial part of the land's worth, and a modest delay can do the same through the time value of the capital tied up. Valuers express this sensitivity through scenario analysis, but the practical consequence for finance is straightforward: the security a land lender holds is not only contingent but volatile, and a lender that has advanced even a prudent fraction of today's residual value can find that fraction uncomfortably high if the assumptions move against it. This volatility, as much as the contingency, explains the caution of senior land lending.

2.2 Information, Optionality and the Cost of Early Capital

Two further ideas explain the shape of acquisition finance. The first is informational. At the acquisition stage the gap in knowledge between the sponsor and the financier is at its widest. The sponsor has studied the plot, formed a view on its planning prospects and modelled the scheme; the financier sees a plot and a plan and must price what it cannot fully verify. The classic consequence of such asymmetry is that capital is either withheld or priced to protect the provider against the adverse selection it cannot screen out. Early-stage capital is dear in part because it is uninformed capital.

The second idea is optionality. Buying land is, in economic substance, the purchase of an option to develop. The owner of a serviced plot holds the right, but not the obligation, to build, and that right has value even if it is never exercised. This is why instruments that preserve optionality without committing the full purchase price, such as land options and deferred-payment structures, are so powerful at the acquisition stage. They allow a developer to control the upside of a site while deferring the moment of greatest capital strain, and they let a capital provider participate in that upside without funding the whole purchase. Much of the craft of acquisition finance lies in shaping who holds the option, who pays for it, and when.

The real-options view of land has a long lineage in the financial-economics literature, where the insight that the right to invest is itself a valuable asset, and that holding back to invest later can be worth more than investing now, has been formalised and widely applied to natural resources, research and development, and real estate alike. The application to development land is direct. A landowner who waits before building is exercising the option to develop at the most advantageous moment rather than the earliest, and the premium a developer pays for an option over land is, in this framework, the price of that right. The literature also explains why uncertainty raises the value of waiting: the greater the uncertainty

about planning, costs or the market, the more valuable it is to retain the choice rather than commit, and the more an option-based structure is worth relative to outright purchase. For the early-stage developer this is not an abstraction but a practical guide to when ownership should be deferred and when it should be taken.

2.3 The Institutional Setting in the Gulf

The general problem takes a particular form in the Gulf. Land in the principal Emirati and Saudi markets is valuable and, in many districts, scarce, so the absolute sums required at acquisition are large. The banking system lends against completed and income-producing real estate readily but treats raw-land lending as a specialist and selective activity, constrained both by prudential limits on real-estate exposure and by the difficulty of valuing land whose use depends on master-developer approvals. At the same time the region has seen the rapid growth of a private capital pool, in family offices, private credit funds and structured-equity providers, that is willing to take positions the banks decline. The acquisition gap in the Gulf is therefore real, but it is increasingly a gap that non-bank capital is structured to fill.

A further feature of the Gulf setting is the prominence of Islamic finance. A substantial share of capital in the region is deployed on a Shariah-compliant basis, which rules out conventional interest-bearing land loans and favours structures such as the murabaha, in which a financier purchases the land and on-sells it to the developer at a marked-up price payable over time, or the diminishing musharaka, a co-ownership that the developer buys out in stages. These structures achieve much the same economic result as a conventional land loan, but their form matters, and acquisition finance in the Gulf must be designed to work in both conventional and Islamic versions.

The Gulf market also has a distinctive ownership geography that shapes acquisition finance. A large share of developable land is held not by speculators but by families, government-related entities and master developers who acquired it long ago and carry it at low historic cost. Such owners are frequently more interested in participating in the value a scheme creates than in realising a one-off sale, which makes the land-for-equity joint venture, discussed in Section 5, more readily available in the region than in markets where land changes hands purely for cash. The institutional setting therefore does not merely constrain the developer; it also opens routes, and the developer who understands the preferences of the local landowning class can often structure an acquisition that a purely transactional market would not permit.

Finally, the macro backdrop in 2026 conditions the whole picture. Policy rates across the Gulf, anchored to the dollar through the regional currency pegs, sit at levels that make senior debt meaningfully more expensive than it was in the previous cycle, and that increase in the base cost feeds directly into every layer of the acquisition stack. A higher cost of senior debt widens the gap that subordinated capital must fill and raises the return that mezzanine and preferred providers demand, so the arithmetic of the funding gap is more demanding than it was when money was cheap. At the same time, the supply of private capital seeking real-asset exposure in the region has continued to deepen, which moderates the pricing of the bridging layers even as the base rate lifts them. The two forces pull in opposite directions, and the net cost of acquisition capital in 2026 reflects their balance.

2.4 Propositions

From this background the paper draws five propositions, which the later sections apply.

Proposition 1. The acquisition stage is the trough of the development capital curve. Capital is scarcest and most expensive when the asset is least productive, and it becomes more plentiful and cheaper as the development advances. The funding problem is therefore most acute at the very start.

Proposition 2. The funding gap at acquisition is structural, not incidental. Senior debt will reach only a fraction of the land price because the residual value of raw land is a poor security, so a gap between price and available senior plus sponsor capital is the normal state of affairs and must be filled by design.

Proposition 3. The instrument must match the land. Raw, un-zoned land, serviced plots and strategic landbanks have different risk profiles, and the instrument that suits one suits another poorly. Choosing the financing means first classifying the land.

Proposition 4. Optionality is the cheapest form of control. Where a developer can control a site without buying it outright, through an option or a deferred-payment structure, the moment of greatest capital strain is postponed and the cost of carrying the land is reduced.

Proposition 5. The structuring choice at acquisition propagates. The instrument chosen to fund the land determines the equity left for later stages, the returns available to each party, and the flexibility the developer retains, so the earliest decision is also one of the most consequential.

3. METHOD AND ASSUMPTIONS

This study is analytical and descriptive rather than empirical. It does not report a survey of transactions or a dataset of executed deals. Instead it builds a structured framework for reasoning about how a land acquisition can be funded, and it illustrates that framework with stylised calibrations chosen to make the relationships between instruments clear. The purpose is to give the developer and the capital provider a shared way of thinking about the problem, not to publish a price.

3.1 The Funding-First Framework

The method rests on a single reordering of the usual sequence. A developer evaluating a site naturally begins with the price and asks whether the scheme works at that price. The framework here inserts a prior question: how will the acquisition itself be funded? Because the structure of the acquisition determines how much equity is consumed at the outset, what is left for the build, and what returns each party can earn, the funding question shapes the answer to the price question. A site that does not work when the land is bought outright may work comfortably when the land is taken under option or funded with a landowner joint venture. The framework therefore treats the funding structure as an input to the appraisal, not an afterthought.

3.1a What the Framework Does and Does Not Do

The framework is a tool for reasoning about how to fund a land purchase and what each route costs. It is not a valuation of any plot, a credit decision on any borrower, or a recommendation of any instrument. It cannot tell a developer whether a particular site is worth buying, nor can it tell a capital provider whether a particular sponsor is creditworthy. Those are matters of specific analysis and specific advice. What the

framework does is organise the available instruments so that the right questions are asked in the right order.

3.2 Assumptions and Their Justification

The illustrative inputs used in the figures and tables, the senior advance rates, the cost-of-capital ranges, the share of the land price funded by each layer and the suitability scores in the land-type grid, are stylised calibrations. They are chosen to reflect the broad shape of 2026 Gulf conditions: elevated land values, selective bank appetite for raw land, and a deepening pool of private capital pricing risk above the senior margin. They are not forecasts, surveyed figures or terms available in any specific transaction. Table 1 collects the base-case assumptions so that the reader can see what drives the illustrations and can substitute their own figures.

Parameter	Illustrative base case	Rationale
Senior advance against raw land	30 to 45% of price	Banks lend a fraction of raw-land value given weak recovery security.
Senior advance against serviced plots	50 to 60% of price	Servicing and zoning raise the recovery value and the advance.
Sponsor equity at acquisition	25 to 35% of price	First-loss layer the senior lender requires before advancing.
Residual gap to be structured	15 to 25% of price	The space mezzanine, preferred equity or a JV must fill.
Mezzanine all-in cost	14 to 19% p.a.	Subordinated, land-stage risk priced above senior.
Preferred equity target	16 to 22% p.a.	Equity-risk capital with a preferred return and downside protection.
JV / promote equity target	20 to 30% p.a.	Pure development-equity return for shared risk and upside.
Land option premium	5 to 12% of price p.a.	Cost of controlling a site without buying it outright.

Table 1. Base-Case Assumptions for the Funding-First Framework

Indicative, illustrative calibrations used to make the framework legible. They reflect the broad shape of 2026 GCC conditions and are not forecasts, surveyed data or terms available in any specific transaction.

4. THE FUNDING GAP AND THE COST OF CAPITAL

This section establishes the two facts on which the rest of the paper turns: that a structural gap exists between the price of land and the capital conventionally available to buy it, and that the capital which fills the gap is priced steeply because of where it sits in the stack and how early it is committed.

4.1 Anatomy of the Gap

Consider a developer buying a parcel for a known price. Set that price at one hundred units. A senior lender, looking at raw or only partly zoned land, will advance perhaps thirty to forty-five of those units, and it will require the sponsor to contribute a substantial slice of equity, say twenty-five to thirty-five

units, as the first-loss cushion beneath its loan. Even on generous assumptions, senior debt and sponsor equity together do not reach the price. A residual remains, somewhere between fifteen and twenty-five units, that neither the bank nor the sponsor's base equity will fund. This residual is the acquisition financing gap, and Figure 2 sets it out as a waterfall.

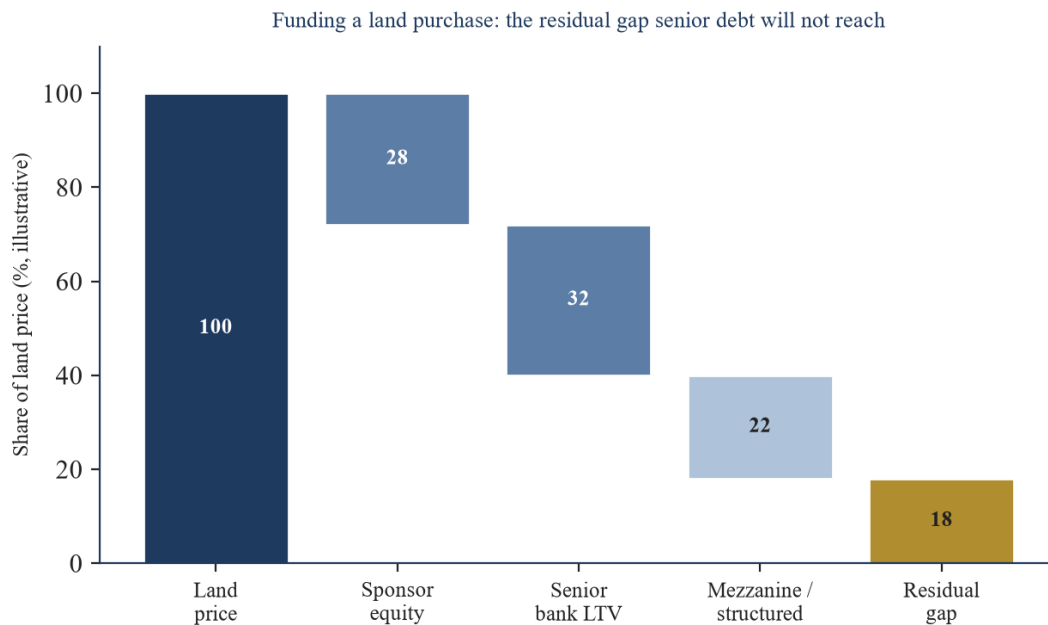


Figure 2. The Acquisition Financing Gap

Illustrative. Starting from a land price of 100, senior debt and sponsor equity leave a residual gap that conventional sources will not fund. Mezzanine, preferred equity or a joint venture must bridge it. The shares are stylised illustrations, not transaction terms.

The gap is not a sign of a badly structured deal. It is the normal arithmetic of buying land. The senior lender cannot prudently advance more against an asset whose value is contingent, and the sponsor cannot prudently sink all of its equity into a single land purchase before the build has even begun. The gap exists by design, and the developer who plans for it raises the bridging capital deliberately and on terms chosen in advance. The developer who ignores it discovers the gap at the worst possible moment, when the purchase must complete and the cheapest options have closed.

4.1a A Worked Illustration

It helps to put numbers to the arithmetic, with the firm caveat that the figures are illustrative and chosen only to show the mechanism. Suppose a developer agrees to buy a zoned but un-serviced plot for one hundred million in local currency, intending to service it and build out a residential scheme over four years. A senior lender, viewing the plot as raw for its purposes, offers an advance of forty per cent, or forty million, secured on the land and the project vehicle. The sponsor is prepared to commit thirty million of its own equity as the first-loss layer the lender requires. Forty and thirty make seventy, and the price is one hundred, so a gap of thirty million remains to be funded before the purchase can complete, before any servicing has begun and before a single unit has been sold.

The developer now faces the choice the framework is built to inform. It can raise the thirty million as mezzanine debt at, say, sixteen per cent, preserving its ownership of the upside but committing to a coupon that the project must eventually service. It can raise it as preferred equity at perhaps nineteen per

cent, avoiding a fixed coupon but conceding a preferred return and a priority on capital. It can approach the landowner and propose that, instead of a full cash purchase, the owner take a share of the project in exchange for deferring part of the price, converting some of the gap into landowner equity. Or it can step back entirely and ask whether it needs to own the land now at all, securing instead an option to buy it once servicing consent and the build capital are in place, for a premium that might be eight per cent of the price, or eight million, rather than the thirty-million gap. Each route has a different cost, a different effect on the developer's retained upside, and a different consequence for the equity available to fund the build, and the worked figures make those trade-offs concrete.

4.2 Why the Bridging Capital Is Dear

The capital that fills the gap is expensive for three reasons that compound. First, it is subordinated. Mezzanine debt and preferred equity sit behind the senior lender, so they bear loss first and are paid last, and they must be compensated for that position. Second, it is early. It is committed at the acquisition stage, before planning is secured and before any value has been created, so it carries the full weight of the development's contingency. Third, it is often patient. The capital may be locked up through planning, enabling works and into construction before any return is realised, and illiquidity has its price. The combination places the cost of bridging capital well above the senior margin, as Figure 3 shows.

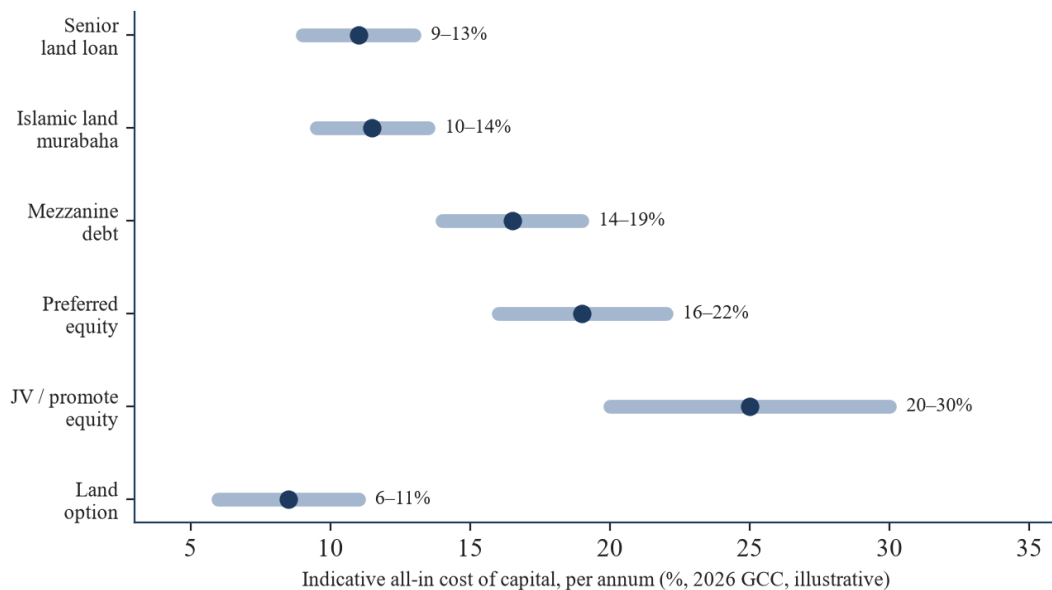


Figure 3. Indicative Cost of Capital by Instrument

Illustrative. All-in annual cost of capital for the principal acquisition-stage instruments under stylised 2026 GCC conditions. The ranges widen as the instrument moves down the stack from senior debt to pure development equity. Figures are illustrative and not quotations.

The ordering in Figure 3 is the heart of the matter. A senior land loan, or its murabaha equivalent, sits at the bottom of the cost range because it is best protected. Mezzanine sits above it, preferred equity above that, and pure joint-venture equity highest of all, because each step down the stack takes more risk and demands more return. The land option sits apart and low, not because it is senior, but because it buys control rather than ownership and therefore carries a smaller sum at risk. The developer's task is to assemble the cheapest combination of these instruments that still closes the gap, and the provider's task is

to find the position on this ladder where its appetite for risk and its required return meet the developer's need.

It is worth dwelling on why the cost differences are as large as Figure 3 suggests, because the spread between the cheapest and the dearest acquisition capital is wide enough to determine whether a scheme works at all. The gap between a senior land loan in the low teens and pure development equity in the mid-twenties is not a market inefficiency to be arbitrated away. It is the price of the risk transfer that each step down the stack represents. The senior lender is paid least because it is exposed last and best secured; the equity partner is paid most because it absorbs the first loss if the planning, the build or the market disappoints. A developer who treats the dearest capital as interchangeable with the cheapest, and assembles the stack without regard to the cost of each layer, will find that the blended cost of its acquisition capital quietly consumes the profit the scheme was meant to produce. The discipline of acquisition finance is to use each layer only as far as the land and the project genuinely require, and to reach for the dearer layers last.

5. THE INSTRUMENTS AND THE LAND THEY SUIT

Having established the gap and its cost, this section works through the instruments individually. The organising principle is Proposition 3: the instrument must match the land. A structure that suits a serviced plot in a mature district will be wrong for a strategic landbank on the urban fringe, and the first step in financing any acquisition is to classify the land it concerns.

5.1 Classifying the Land

Development land is not a single asset class. At one extreme sits raw, un-zoned land, whose use is undetermined and whose value depends entirely on a planning outcome that has not occurred. Next comes zoned but un-serviced land, where the permitted use is settled but the infrastructure is not yet in place. Then come serviced plots, ready to build upon, whose value is most nearly realisable. Infill and urban sites form a category of their own, small and well located but often complex. And strategic landbanks, large holdings acquired ahead of demand, are bought as much for their option value as for any immediate scheme. Each of these carries a different balance of risk and time, and each is suited by a different instrument, as Figure 4 sets out.

Raw / un-zoned	–	–	Low	Med	High	High
Zoned, un-serviced	Low	Low	Med	Med	High	Med
Serviced plots	High	High	Med	Med	Med	Low
Infill / urban	Med	Med	High	Med	Med	Low
Strategic landbank	Low	Low	Med	High	High	High
	Senior land loan	Land murabaha	Mezzanine	Preferred equity	JV with owner	Land option / deferred

Figure 4. Instrument Suitability by Land Type

Illustrative. A stylised mapping of the principal instruments against land types, scored from low to high suitability. Senior debt suits serviced plots; options and joint ventures suit raw land and strategic banks where ownership is best deferred or shared. The scores are illustrative judgements, not rules.

The grid in Figure 4 repays careful reading because its pattern is not arbitrary. Senior debt, the cheapest capital, concentrates its suitability in the serviced and infill columns, where the land is nearest to realisable value and the lender's security is strongest. The option and deferred-payment column, by contrast, is strongest precisely where senior debt is weakest, on raw land and strategic banks, because those are the sites where the value of waiting is greatest and where committing the full price now would be most punishing. The joint-venture column runs across the whole range but peaks on the largest and most strategic holdings, where the sums involved make a cash purchase least feasible and a landowner participation most attractive. The diagonal character of the grid is the visual expression of Proposition 3: as the land moves from raw to ready, the suitable instrument moves from equity-like and deferred towards debt-like and senior, and a developer who reads the grid is reading the order in which to consider its options for a given plot.

5.2 Senior Land Loans and Their Islamic Equivalents

The senior land loan is the cheapest form of acquisition capital and the foundation of most structures, but it reaches furthest when the land is most nearly ready to build. Against a serviced plot a bank may advance half to three-fifths of the price; against raw land it advances much less, if at all. The Islamic equivalent, most commonly a murabaha in which the financier buys the land and on-sells it to the developer at a deferred, marked-up price, achieves the same economic outcome within a Shariah-compliant form and is widely used across the Gulf. A diminishing musharaka, in which financier and developer co-own the land and the developer acquires the financier's share in instalments, is an alternative where a co-ownership structure is preferred. In every case the senior layer is the anchor, and the structuring work lies in what is built on top of it.

5.3 Mezzanine Debt

Mezzanine debt is the natural filler of the residual gap. It sits behind the senior loan and ahead of the sponsor's equity, taking subordinated risk in return for a coupon well above the senior margin. Its great virtue at the acquisition stage is that it is debt: it does not dilute the sponsor's ownership of the upside, so a developer confident in the scheme can use mezzanine to preserve equity while still closing the purchase. Its cost reflects its position, and a developer must be sure that the project's returns can carry a layer of capital priced in the mid-to-high teens. Mezzanine suits zoned land and serviced plots, where the path to value is visible enough to service the coupon, better than it suits wholly speculative raw land.

5.4 Preferred Equity

Where the risk is too great for debt, even subordinated debt, preferred equity steps in. The preferred investor takes an equity position but with protections: a preferred return that accrues ahead of the sponsor's, and a priority on capital returned. It is more expensive than mezzanine because it is genuinely equity and bears genuine equity risk, but it is more flexible, because it need not be serviced with a regular coupon and can wait for value to be created before it is paid. Preferred equity suits sites where the timeline is uncertain and a fixed coupon would be a burden, and it suits sponsors who would rather share the upside than commit to debt service before any income exists.

5.5 Joint Ventures with Landowners

One of the most powerful structures at the acquisition stage involves not financing the purchase of land at all, but persuading the landowner to contribute the land in kind. In a land-for-equity joint venture the owner places the plot into a development vehicle in exchange for a share of the project and its eventual profit, and a capital partner funds the build. The developer thereby acquires control of the site without paying its full price in cash, and the owner converts a static asset into a participation in a finished scheme. These structures are common where land is held by families or institutions that prefer a share of development profit to an outright sale, and they are especially valuable for strategic landbanks and large sites where an outright purchase would be prohibitively capital-intensive. The price of the structure is shared control and shared upside, and the craft lies in aligning the parties through the promote and the governance.

5.6 Options and Deferred-Payment Structures

The final family of instruments addresses the capital strain directly by deferring it. A land option gives the developer the right to buy a site at an agreed price within an agreed period, in exchange for a premium that is a fraction of the price. The developer can then pursue planning and assemble the build capital while controlling the site, and exercise the option only when the scheme is funded. A deferred or forward-payment structure achieves a similar result by agreement with the seller, who accepts payment over time, often phased against the development's own milestones or sales. Both structures convert the single large payment of an outright purchase into a smaller premium now and a larger payment later, when capital is more plentiful and cheaper, exactly the movement up the capital curve that Figure 1 describes. They suit raw land and strategic sites, where the value of waiting is greatest, and Figure 5 illustrates the three principal structures discussed in this section.

The power of these structures is easiest to see by contrast with an outright purchase. The developer who buys raw land outright commits the full price at the moment of greatest uncertainty and then carries that capital, at whatever it costs, through the long months of securing planning and servicing. If the planning is refused, the developer owns an asset worth far less than it paid. The developer who instead takes an option commits only the premium, pursues the planning while controlling the site, and exercises only if and when the scheme is proven and funded. If the planning fails, the developer walks away having lost the premium alone. The option has, in effect, transferred the planning risk into a bounded, known cost, and it has done so while keeping the upside of the site fully in the developer's hands. This is why optionality is, in the language of Proposition 4, the cheapest form of control: it buys the right outcome in the good case and caps the loss in the bad one.

The limitation of optionality is that it depends on a willing counterparty. A landowner will grant an option, or accept deferred payment, only if the premium or the deferral terms compensate for the time the land is taken off the market and for the risk that the developer does not proceed. Where land is scarce and demand is strong, owners may prefer a clean cash sale to the highest bidder, and the option route closes. The Gulf's distinctive ownership geography, discussed in Section 2, is what keeps it open more often than in purely transactional markets: an owner who values a share of development profit, or who is content to wait, is an owner who will deal in options and deferrals. Reading the counterparty is therefore as much a part of acquisition finance as reading the land.

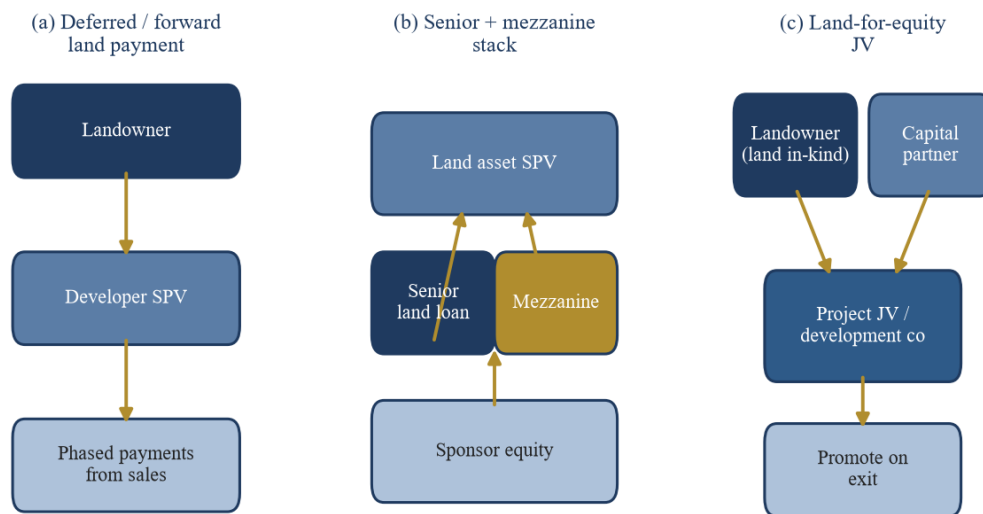


Figure 5. Three Acquisition Financing Structures

Illustrative schematics. (a) A deferred or forward land payment phased against sales; (b) a senior-plus-mezzanine stack over the land SPV; (c) a land-for-equity joint venture in which the owner contributes land and a capital partner funds the build. The structures are simplified for exposition and omit the legal detail any real transaction requires.

6. A DECISION FRAMEWORK FOR THE ACQUISITION

The instruments described in Section 5 are not alternatives to be ranked once and for all. They are tools, each suited to particular circumstances, and the developer's task is to select and combine them for the plot in hand. This section sets out the order in which the questions should be asked.

The first question is not the price but the land. What kind of plot is this: raw, zoned, serviced, infill or strategic? The classification determines how far senior debt will reach and therefore how large the residual gap will be. A serviced plot may need only a thin layer of mezzanine above a generous senior loan; raw land may need an option or a joint venture because senior debt will barely engage. Classifying the land first prevents the developer from assuming a structure the land will not support.

The second question is whether ownership is necessary now. If the value of the site lies in its option to be developed later, and if the developer can secure that option without buying the land outright, the cheapest route is often to defer the purchase through an option or a forward payment. The developer should ask whether control, rather than ownership, will serve until the scheme is funded. Where it will, the capital strain of acquisition is postponed and reduced.

The third question, where ownership is necessary, is how to fill the gap that senior debt and base equity leave. Here the choice runs along the cost ladder of Figure 3. If the project's economics can carry a coupon and the sponsor wishes to keep the upside, mezzanine is the answer. If the timeline is uncertain and a coupon would be a burden, preferred equity fits better. If the sum required is very large or the landowner is willing, a joint venture that brings the land in as equity may be best of all. The developer chooses the cheapest structure the land and the scheme can support, and no cheaper.

The fourth question concerns what the structure does to the stages that follow. Capital consumed at acquisition is capital unavailable for the build, and a structure that minimises the cash committed now, through an option, a deferral or a landowner joint venture, preserves equity for later and improves the returns available across the whole development. The decision at acquisition should be made with the whole capital plan in view, not the purchase alone. This is the practical content of Proposition 5: the earliest choice propagates through everything that follows.

These four questions are deliberately ordered, and the order matters as much as the questions themselves. A developer who begins with the third question, how to fill the gap, before answering the first two has already assumed that the land must be bought outright and that the only task is to find the bridging capital. That assumption forecloses the cheapest routes before they have been considered. By asking first what kind of land this is, and second whether ownership is necessary now, the framework keeps the option and deferral routes open and forces the expensive bridging layers to justify themselves only after the cheaper alternatives have been ruled out. The sequence is, in effect, a discipline against reaching for dear capital out of habit, and it is the practical heart of the funding-first method set out in Section 3.

The framework does not, of course, make the decision. Real plots resist tidy classification, real landowners have preferences that no grid can capture, and real markets move while the structuring is being arranged. What the framework offers is a way of organising the judgement, so that the developer and the capital provider confront the same questions in the same order and can reason together about where on the cost ladder a given acquisition should sit. The numbers in the figures are illustrative, but the order of the questions is general, and it is the order, more than any particular calibration, that the developer should carry from this paper into the next acquisition.

Applied across a sequence of acquisitions, the framework also becomes a statement of a firm's strategy rather than a one-off calculation. A developer that consistently defers ownership through options will run a

capital-light model, controlling more land for a given balance sheet but conceding premiums and accepting that some options will expire unexercised. A developer that consistently buys outright will own its sites cleanly but will tie up far more capital and carry far more concentrated risk. Neither is right in the abstract; the choice expresses the firm's appetite for risk, its access to capital and its view of the market. The value of the framework is that it makes the choice explicit and repeatable, so that each acquisition is structured in a way consistent with the firm's strategy rather than improvised under the pressure of a looming completion.

7. RISK, MITIGANTS AND THE WIDER STACK

Acquisition finance concentrates risk at the point where the development is least certain, and a treatment of the subject would be incomplete without an account of the risks each party bears and how they may be managed.

7.1 The Developer's Risks

The developer's principal risk at acquisition is that the contingencies on which the land's value depends do not materialise. Planning may be refused or delayed, infrastructure may be slower than assumed, and the market may move before the scheme completes. Any of these can leave the developer carrying expensive acquisition capital against a site that has not appreciated as planned. The mitigants are to defer ownership where possible, so that the developer is not committed until the planning risk has cleared; to match the financing to the timeline, so that patient capital carries patient risk; and to size the bridging layer conservatively, so that a delay does not exhaust the project's capacity to service it.

7.2 The Capital Provider's Risks

The provider of bridging capital takes the mirror image of these risks. It is committed early, ranks behind the senior lender, and depends for its return on a development that has barely begun. Its mitigants lie in structure and in selection. It can take security over the land and over the development vehicle, it can require the sponsor to hold a meaningful first-loss equity position so that interests are aligned, it can attach milestones and step-in rights that let it intervene if the project stalls, and above all it can choose the sponsors and sites in which it participates with care. The position on the cost ladder of Figure 3 must compensate for the residual risk that structure cannot remove.

7.3 Acquisition Finance in the Capital Stack

It is useful, finally, to see where acquisition finance sits in the broader landscape of development capital. Figure 6 places the instruments on a risk-return plane, from the senior land loan at the protected, lower-returning end to pure joint-venture equity at the higher-risk, higher-returning end, with the land option occupying a distinctive position of low committed capital. The plot makes visible the trade the developer manages and the provider prices: every step taken to close the funding gap with cheaper capital is a step towards more senior, more protected money that is harder to obtain at the acquisition stage, and every step towards capital that is readily available at acquisition is a step towards more expensive, more equity-like money.

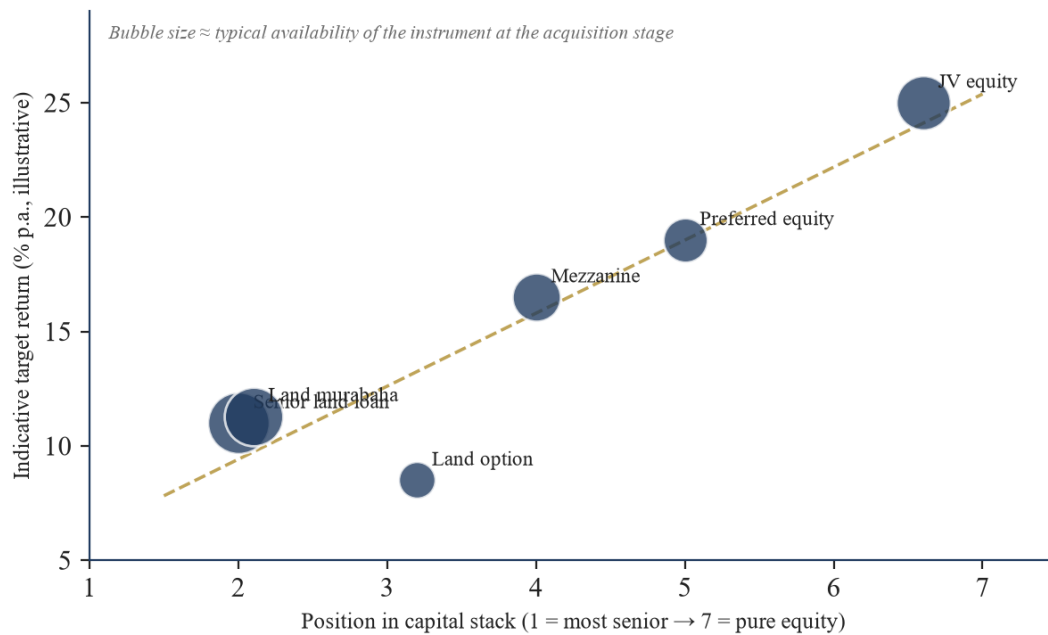


Figure 6. Acquisition Instruments on the Risk-Return Plane

Illustrative. The principal instruments positioned by their place in the capital stack and their indicative target return, with bubble size suggesting how readily each is available at the acquisition stage. The arrangement is a stylised illustration, not a measurement of any market.

Read together with the capital curve of Figure 1, this completes the argument. Capital is scarce and dear at acquisition because the asset is unproductive and the risk is concentrated, and the instruments that fill the resulting gap are priced for the position and the timing they accept. The developer who understands the curve raises the cheapest combination of capital the land will support, defers ownership where the option to develop is worth more than the land itself, and preserves equity for the stages where capital is more plentiful. The provider who understands the curve prices the early risk it takes and structures to protect itself against the contingencies it cannot control.

7.4 The Landbank and the Portfolio View

A final dimension separates the developer buying a single site from the institution assembling a landbank. For the single-site developer, acquisition finance is a discrete problem solved once. For the developer or investor building a portfolio of land ahead of demand, it is a continuing programme, and the instruments must be chosen with the portfolio rather than the plot in view. A landbank carries the cost of its capital with no offsetting income until the parcels are developed or sold, so the patience and the price of the capital that funds it bear directly on the returns the whole programme can earn. Here the case for optionality is strongest of all: an institution that controls a portfolio of sites through options and deferred-payment arrangements, rather than owning them outright, carries a far smaller capital burden and retains the flexibility to proceed only with the parcels that prove out. The landbank built on options is a portfolio of rights to develop, exercised selectively, rather than a static and expensive holding of land.

The portfolio view also changes the provider's calculus. A capital provider funding a single acquisition takes concentrated, idiosyncratic risk on one plot and one sponsor. A provider funding a programme across several sites can diversify across plots at different stages and with different planning risks, and can

structure its participation to recycle as individual parcels are developed and exit. For the family office or private credit fund weighing exposure to the acquisition stage, the programme is often a more attractive proposition than the single deal, because diversification across the portfolio softens the concentration that makes any one land bet hazardous. The instruments described in this paper are the building blocks of both the single acquisition and the portfolio, and the difference lies in how they are combined and sequenced over time.

8. CONCLUSION

Every development begins with the purchase of land, and that purchase is the hardest moment in the life of the project to finance. The asset is at its least productive, the risk is at its most concentrated, and the gap in knowledge between sponsor and financier is at its widest. Senior debt reaches only a fraction of the price, sponsor equity cannot prudently fund the rest alone, and a structural gap opens that must be bridged by capital priced for its subordination, its earliness and its patience. This is the trough of the development capital curve, and the developer who does not plan for it meets it at the worst possible moment.

The argument of this paper is that the gap can be planned for and structured around. The instruments exist: senior land loans and their Islamic equivalents to anchor the stack, mezzanine and preferred equity to fill the residual, joint ventures with landowners to bring the land in as equity, and options and deferred payments to control a site without buying it outright. The skill lies in matching the instrument to the land, in deferring ownership where the option to develop is worth more than the land, and in choosing the structure with the whole capital plan in view rather than the purchase alone. The decision made at acquisition is the decision that shapes every return that follows.

For the developer the message is to begin with the funding question, to classify the land before assuming a structure, and to assemble the cheapest combination of capital the site will support. For the capital provider the message is that the acquisition stage, precisely because it is the scarcest point on the curve, is where structured capital is most needed and, properly priced and protected, most rewarded. The two readers share a single map, and the better each understands it, the more land that would otherwise sit unfunded can be brought into productive development.

This paper has offered that map in illustrative form. The figures are stylised, the costs are indicative, and the structures are simplified for exposition. A real transaction requires real valuation, real credit analysis and real professional advice. What the framework provides is a way of asking the right questions in the right order, so that the most capital-starved stage of development is approached not with surprise but with a plan.

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APPENDIX A. BASE-CASE ASSUMPTIONS

The illustrative calibrations underlying the figures are collected in Table 1 in Section 3.2. They are stylised to make the framework legible and reflect the broad shape of 2026 GCC conditions. They are not forecasts, surveyed figures or terms available in any specific transaction, and any real appraisal should substitute figures specific to the plot, the sponsor and the market in question.

APPENDIX B. ACQUISITION FINANCING CHECKLIST

The following checklist restates the decision framework as a sequence of questions a developer or capital provider should answer before committing to a land purchase.

- Land: Is the plot raw, zoned, serviced, infill or strategic, and what does that imply for senior reach?
- Senior: How far will a senior land loan or its murabaha equivalent advance against this land?
- Equity: How much first-loss sponsor equity is required, and is it available without exhausting the build budget?
- Gap: What residual remains once senior debt and base equity are committed?
- Ownership: Is outright ownership necessary now, or will an option or deferral secure control until the scheme is funded?
- Bridge: If ownership is necessary, is mezzanine, preferred equity or a landowner JV the cheapest route the land supports?
- Islamic: Must the structure be Shariah-compliant, and is the murabaha or musharaka form in place?
- Timeline: Does the financing's tenor and servicing profile match the development's milestones?
- Alignment: Does the sponsor hold a meaningful first-loss position so that interests are aligned with the providers?
- Propagation: What does this structure leave for the construction and handover stages, and does the whole plan still work?
- Advice: Has qualified valuation, credit and legal advice been taken on the specific plot and structure?

APPENDIX C. GLOSSARY OF KEY TERMS

Acquisition financing gap. The residual portion of a land price that senior debt and base sponsor equity together will not fund, and which must be bridged by mezzanine, preferred equity or a joint venture.

Residual land value. The completed value of a scheme less the cost of building it and the developer's required profit, leaving the amount attributable to the land.

Senior land loan. A first-ranking loan advanced against the value of development land, typically reaching only a fraction of the price for raw or un-serviced land.

Mezzanine debt. Subordinated debt ranking behind the senior loan and ahead of equity, carrying a higher coupon to reflect its position.

Preferred equity. An equity investment carrying a preferred return and a priority on returned capital, ahead of the sponsor's ordinary equity.

Land-for-equity joint venture. A structure in which a landowner contributes a plot in kind to a development vehicle in exchange for a share of the project and its profit.

Land option. A right, but not an obligation, to purchase a site at an agreed price within an agreed period, acquired for a premium that is a fraction of the price.

Deferred or forward payment. An agreement by which the land price is paid over time, often phased against the development's milestones or sales.

Murabaha. An Islamic financing in which the financier buys an asset and on-sells it to the customer at a deferred, marked-up price, used as a Shariah-compliant substitute for a land loan.

Diminishing musharaka. An Islamic co-ownership in which the customer acquires the financier's share of an asset in instalments over time.

Strategic landbank. A holding of development land acquired ahead of demand, valued as much for its option to be developed later as for any immediate scheme.

Promote. The enhanced share of profit awarded to a developer or sponsor for managing a project and delivering returns above an agreed threshold.

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