Special-Situations Real Estate: Financing Stalled and Distressed Assets in the GCC

A practical framework for structuring rescue capital for broken, stalled and complex real estate, written for Gulf developers and the special-situations funds that finance them

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ABSTRACT

Abstract. Real estate does not fail tidily. A development stalls when a contractor walks or a funding line is pulled; a standing asset becomes distressed when its debt matures into a market that has moved against it; an off-plan scheme breaks when costs overrun or a handover slips. In each case the underlying bricks may still be sound, yet the capital structure that was meant to carry the asset to completion or refinancing has ceased to function. This paper offers a structured way to think about that problem in the Gulf Cooperation Council, where a long cycle of construction, a maturing wall of development debt and a deepening pool of private and special-situations credit have, by 2026, created both more distressed situations and more capital willing to finance them. It proposes a taxonomy that separates distress by its cause and by the stage of the asset, a set of rescue structures that map to each quadrant of that taxonomy, and a recovery waterfall that makes explicit how fresh money is repaid ahead of the capital it rescues. The argument is written for two audiences at once: the developer or sponsor who holds a broken asset and needs to understand what rescue capital will demand, and the special-situations fund that prices the complexity and supplies it. The framework is illustrative and analytical rather than empirical; the figures use stylised values to make the structure legible, not to forecast any particular deal. The central claim is simple. Distressed real estate is financeable when the parties separate the financial problem from the structural one, price the complexity honestly, and stage the capital against the milestones that actually de-risk the asset.

JEL Classification: G23, G33, R33, G32, K12

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1. INTRODUCTION

Every real estate cycle leaves a residue of assets that did not complete the journey they were financed to make. Some are towers that topped out and then stopped, their cranes idle while the developer and the lender argue over who pays for the next phase. Some are finished buildings carrying debt that was sensible when it was drawn and is now unsustainable, either because rates moved, because a tenant left, or simply because the loan has matured into a market with no appetite to refinance it. Some are off-plan schemes that broke somewhere between the sales launch and the handover, with buyers waiting, escrow drawn down and a cost base that no longer balances. The common thread is not that the asset is worthless. The common thread is that the capital structure has stopped working.

This paper is about how to make that capital structure work again. It is written from the premise that distressed and stalled real estate is a financing problem before it is a legal one, and that the parties who succeed in resolving it are the ones who diagnose the problem correctly before they reach for an instrument. A developer who treats a structural problem as if it were a liquidity problem will pour good money after bad. A fund that treats a liquidity problem as if it were a structural one will price itself out of a deal that a competitor will take. The first task, therefore, is diagnosis, and most of the value in special situations is created or destroyed at that stage.

The Gulf is a particularly instructive place to set out this framework in 2026. The region has run a long and largely successful real estate cycle, with Dubai, Abu Dhabi and the larger Saudi cities absorbing extraordinary volumes of new supply. A cycle of that length and intensity always generates a tail of situations that did not work, not because the market failed but because individual schemes were mistimed, mis-specified, over-levered or simply unlucky in their contractors or their counterparties. At the same time, the region has built, over the past five years, a genuine pool of private credit and special-situations capital that did not exist at the depth it has now. The combination matters. Distress without capital is a workout conducted in a courtroom. Distress with capital is a financing market.

The paper is deliberately even-handed between the two sides of that market. For the developer or sponsor, it explains what rescue capital is, what it costs, why it is priced the way it is, and how to approach it without surrendering more value than the situation requires. For the special-situations fund, it sets out a way to triage opportunities, structure the entry, and protect the fresh money that is the whole basis of a rescue. The intention is that a sponsor reading the paper will understand the lender, and a lender reading it will understand the sponsor, because the deals that close are the ones where each side understands the other's constraints.

Three caveats frame what follows. First, this is an analytical and structuring document, not a piece of empirical research. It does not measure the size of the GCC distressed market, because no reliable public series exists, and an invented one would mislead. Second, the figures are illustrative. They use stylised, indexed values to show how a structure behaves, not to predict the outcome of any actual asset. Third, nothing here is legal, tax or investment advice. Special situations are intensely fact-specific, and every situation described in general terms below would, in practice, demand local counsel, a real valuation and proper diligence.

The remainder of the paper proceeds as follows. Section 2 reviews the relevant strands of thought on distress, restructuring and rescue finance, and draws from them a set of propositions. Section 3 sets out the data posture and the framework, and is candid about what the framework does and does not do. Section 4 presents the situation taxonomy. Section 5 sets out the menu of rescue structures. Section 6 works through the recovery waterfall and the pricing of complexity. Section 7 addresses the GCC-specific legal, enforcement and Shariah considerations. Section 8 offers a triage and execution playbook. Section 9 concludes. Appendices provide the base-case assumptions, a diligence checklist and a glossary.

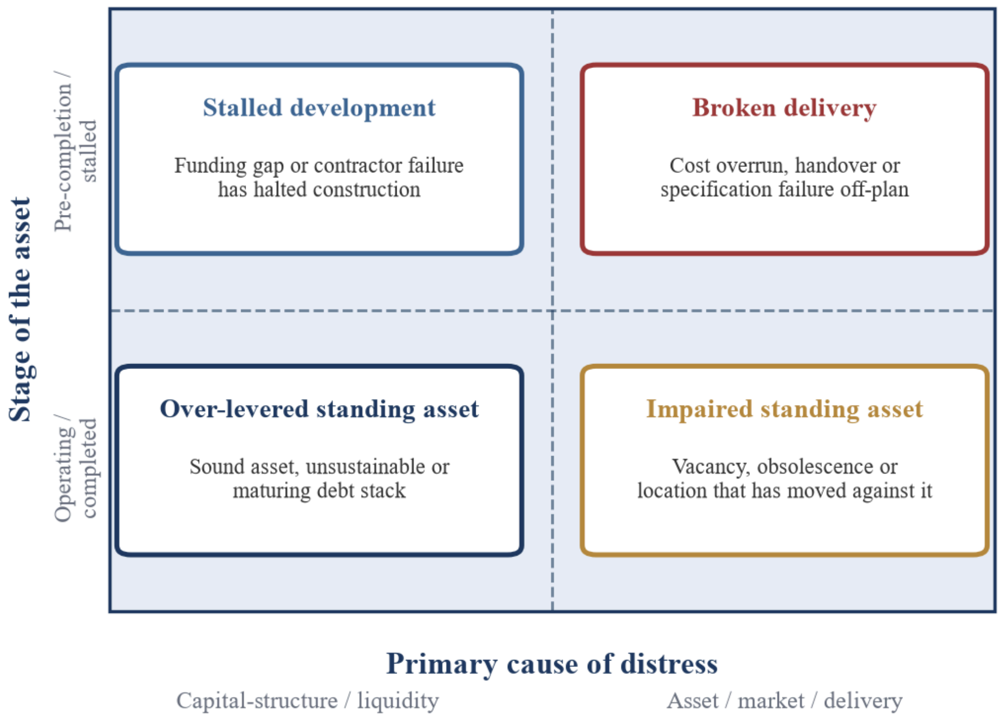

Figure 1. A Taxonomy of Distressed and Stalled Real Estate

Illustrative schematic. Situations are separated by the primary cause of distress and by the stage of the asset. The quadrant an asset falls into points to the rescue structure most likely to fit.

2. BACKGROUND, LITERATURE AND PROPOSITIONS

The framework in this paper rests on three bodies of practice and thought: the theory of financial distress and capital structure, the practice of restructuring and rescue finance, and the specific features of real estate as collateral. This section reviews each briefly and then states the propositions that the rest of the paper develops.

2.1 Financial Distress and the Limits of Capital Structure

The starting point is the distinction, long established in corporate finance, between economic distress and financial distress. An asset is economically distressed when it is worth less than it cost to build or buy, and no financing structure can repair that; the loss is real and must be allocated. An asset is financially distressed when it is fundamentally sound but its capital structure has failed, typically because there is too much debt, the wrong kind of debt, or debt that has matured at the wrong moment. The two are routinely confused, and the confusion is expensive. The single most important judgement in any special situation is which of the two one is looking at, because financial distress is curable with capital and economic distress is not.

Capital structure theory also supplies the reason rescue capital can be priced attractively even when an asset is sound. When an existing lender is impaired and the sponsor's equity is under water, fresh money that enters ahead of both is, in economic terms, the safest money in the structure, yet it is supplied into a situation that the wider market regards as toxic. That gap between the actual risk of the senior-most fresh tranche and the perceived risk of the situation as a whole is the return that a disciplined special-situations investor earns. It is not a reward for taking the most risk; it is a reward for being willing to act where others will not, and for doing the work to tell the two kinds of distress apart.

2.2 Restructuring and Rescue Finance

A second strand concerns the mechanics of restructuring. The literature and practice here are clear that the order in which value is allocated, the priority waterfall, is the spine of any workout. Fresh money will only enter if it can be confident of its place in that order, which is why rescue financing is almost always structured to rank ahead of the capital it is rescuing, whether through a new senior tranche, a priming facility, or a contractual subordination of the incumbent. Where fresh money cannot achieve genuine priority, it will either not come or it will demand the kind of control, through a loan-to-own structure, that converts the lender into the eventual owner.

Rescue finance practice also emphasises staging. Distressed assets are rarely fixed with a single cheque. The capital is released against milestones, completion of a structure, achievement of a handover, signing of a lease, receipt of a regulatory approval, so that the provider is never funding more risk than the asset has so far retired. Staging aligns the interests of the parties and limits the downside of the provider, and a sponsor who understands this will present a credible milestone plan rather than asking for the whole amount at once.

2.3 Real Estate as Collateral

The third strand is the specific character of real estate as the asset under distress. Real estate has features that make it unusually amenable to rescue. It is tangible and immovable, so it cannot abscond; it can usually be valued, even if the value is contested; and it can be secured through mortgages, charges and assignments of receivables that give a lender real recourse. Against these advantages sit real complications. Construction risk is binary in a way that operating risk is not, because a half-finished building generates no income and may cost more to complete than to abandon. Off-plan structures introduce buyers and escrow regimes whose claims sit ahead of, or alongside, the financier's. And enforcement against real estate, while ultimately reliable in the major GCC jurisdictions, can be slow, which is why the better outcome is almost always a consensual restructuring rather than a contested enforcement.

2.4 Why the Gulf Generates Distress Without Generating a Crisis

It is worth pausing on a feature of the GCC that distinguishes its distress from the systemic episodes seen elsewhere. The Gulf's real estate distress in 2026 is idiosyncratic rather than systemic: it arises from individual schemes that were mistimed, mis-specified, over-levered or unlucky in their counterparties, against a market backdrop that remains broadly healthy. This matters for the financing of it. Systemic distress, in which a whole market falls together, overwhelms the capacity of rescue capital and tends to be resolved through policy and forbearance. Idiosyncratic distress, in which sound markets contain pockets of broken assets, is exactly the environment in which special-situations capital thrives, because the capital can be selective, the exit markets remain open, and the value lost to the distress can be recovered when the individual problem is fixed. The framework in this paper is built for idiosyncratic distress, and the Gulf in 2026 is, for the most part, an idiosyncratic-distress market.

2.5 Propositions

These strands yield five propositions that the framework operationalises.

Proposition 1. The first and most consequential step in any distressed situation is to separate economic distress from financial distress, because only the latter is curable with capital.

Proposition 2. The structure of a rescue follows from the quadrant of the taxonomy the asset occupies; cause and stage of distress between them determine the instrument.

Proposition 3. Fresh money will only enter on terms that give it genuine priority in the recovery waterfall, whether by ranking, by priming or by control.

Proposition 4. The price of rescue capital reflects the complexity it absorbs, not merely the loan-to-value of the asset, and complexity is a function of the number and the alignment of the parties.

Proposition 5. In the GCC, the legal, escrow and Shariah context shapes which structures are available and enforceable, and a structure that ignores that context will not close.

3. DATA POSTURE AND FRAMEWORK

This study is analytical and descriptive. It does not present new empirical data, and it does not rely on a proprietary dataset of distressed transactions, because no such dataset exists in a form that could be cited with confidence for the GCC. Instead it builds a framework from established principles of distress and rescue finance and applies that framework to the specific conditions of the Gulf market as they stand in 2026. The figures and tables use stylised, illustrative values whose only purpose is to make the logic of a structure visible.

3.1 What the Framework Is

The framework has four components. The first is the situation taxonomy of Figure 1, which sorts distressed assets by the cause of distress and the stage of the asset. The second is the menu of rescue structures of Section 5, which maps an instrument to each quadrant of the taxonomy. The third is the recovery waterfall of Section 6, which makes explicit how proceeds are allocated and therefore how fresh money is protected and priced. The fourth is the triage and execution playbook of Section 8, which sequences the work of getting from a broken asset to a funded rescue.

3.1a What the Framework Does and Does Not Do

The framework is a tool for reasoning, not a valuation engine. It will help a sponsor or a fund decide what kind of problem they are looking at and what kind of capital is likely to solve it. It will not tell them what a specific asset is worth, what a specific lender will accept, or whether a specific milestone plan is achievable. Those are questions for a valuer, for negotiation and for technical diligence respectively. The framework deliberately stays at the level of structure, because that is the level at which the same logic applies across many otherwise dissimilar situations.

The choice of an illustrative method rather than an empirical one is a considered one. An empirical study of GCC distressed real estate would require transaction-level data that is private, sparse and unrepresentative, and any headline figure built from it would carry a false precision. A framework, by contrast, is honest about its own generality and is more useful to a practitioner who must reason about a situation that is, almost by definition, unlike the last one.

3.2 Assumptions and Their Justification

The stylised inputs used in the figures are set out in full in Appendix A. They are chosen to be plausible and internally consistent rather than to match any particular transaction. The recovery waterfall of Figure 3, for example, indexes gross exit value to 100 and applies illustrative costs and tranche sizes so that the mechanism of allocation is legible. A reader should take from the figure the shape of the waterfall, the order in which claims are met and the way fresh money is protected, and not the specific numbers, which would differ in every real case.

One assumption deserves to be stated explicitly because it underlies the whole paper. The framework assumes that a consensual outcome is both possible and preferable. In situations where an incumbent lender is intransigent, where title is genuinely defective, or where the asset is economically rather than financially distressed, the analysis shifts from rescue to recovery, and the right answer may be enforcement or liquidation rather than fresh capital. The paper notes these cases but does not dwell on them, because they are the exception and because they are governed more by law than by finance.

Table 1. The Four Situation Types and Their Defining Features

Illustrative summary. Each type corresponds to a quadrant of Figure 1; the features are typical, not universal.

Situation type	Typical trigger	Core question	Usual rescue posture
Stalled development	Funding gap or contractor failure halts construction	Is the cost to complete less than the completed value?	Senior rescue, staged to milestones
Broken delivery (off-plan)	Cost overrun, handover slip or specification failure	Can buyers and escrow be re-aligned?	Completion finance plus buyer settlement
Over-levered standing asset	Maturing or unsustainable debt on a sound asset	Will the asset support a re-based debt quantum?	Refinance or restructure, possible mezzanine
Impaired standing asset	Vacancy, obsolescence or adverse location shift	Is the impairment curable through repositioning?	Repositioning capital or disposal

4. THE SITUATION TAXONOMY

The taxonomy of Figure 1 is the foundation of everything that follows. It separates distressed real estate along two axes. The horizontal axis asks what caused the distress: is the problem in the capital structure and liquidity of the deal, or is it in the asset, the market or the delivery? The vertical axis asks where the asset is in its life: is it pre-completion and stalled, or operating and completed? The two axes produce four types, and the type an asset falls into is the single most useful piece of information a financier can have, because it points directly at the structure most likely to work.

4.1 Stalled Development

A stalled development is the archetypal special situation: a scheme that began, made progress and then stopped. The cause is usually a funding gap, the original lender will not or cannot advance the next tranche, or a contractor failure, the main contractor has become insolvent or walked off site. The asset is sound in principle; the value on completion exceeds the cost to complete; but the structure has seized. The defining question for a rescuer is arithmetical before it is anything else: is the cost to complete, including the premium that a distressed completion always carries, comfortably less than the value the completed asset will command? If the answer is yes, the situation is financeable, and the rescue is a matter of injecting senior capital, re-mobilising or replacing the contractor, and staging the money against construction milestones.

The subtle risks in a stalled development are rarely in the headline arithmetic. They lie in the condition of the partially-built asset, which may have deteriorated; in the claims of the departed contractor and the sub-contractors, which can encumber the site; and in the willingness of the incumbent lender to be primed or restructured. A rescuer who underwrites only the cost to complete and ignores these will be unpleasantly surprised, which is why the diligence on a stalled development is as much legal and technical as it is financial.

4.2 Broken Delivery

Broken delivery is the off-plan analogue of the stalled development, and it is particularly relevant in the GCC, where off-plan sales fund a large share of development. Here the scheme may be close to complete, but the delivery has broken: costs have overrun the budget that the pre-sales were priced against, a handover date has slipped past the point at which buyers have contractual remedies, or the specification delivered does not match what was sold. The complication that distinguishes broken delivery from a simple stall is the presence of buyers, whose deposits sit in escrow and whose claims, depending on the jurisdiction and the escrow regime, may rank ahead of or alongside a financier's. A rescue here is not only a financing exercise; it is a settlement exercise, in which the buyers, the regulator, the escrow agent and the new financier must all be brought into alignment before money is useful.

4.3 Over-Levered Standing Asset

An over-levered standing asset is a completed, often income-producing, building whose problem is purely financial. The bricks work; the tenants, if any, pay; but the debt is too large, too expensive or simply due. This is the purest case of financial as opposed to economic distress, and it is usually the most straightforward to rescue, because the question is only whether the asset will support a re-based debt quantum on sustainable terms. The rescue is a refinancing or a restructuring, sometimes with a mezzanine layer inserted to bridge the gap between what a senior lender will now advance and what is needed to take out the incumbent. The sponsor's equity is usually re-based in the process, recognising that some value has been lost, but the asset itself continues largely unchanged.

4.4 Impaired Standing Asset

An impaired standing asset is the hardest of the four, because its distress is at least partly economic. The building is complete but something real has gone wrong with it: it has lost its tenants, its specification has dated, or the location has moved against it as the city has grown in another direction. Capital alone will not fix an impaired asset; it must be combined with a plan to cure the impairment, through refurbishment, repositioning, change of use or active leasing, and the financier must underwrite that plan, not merely the existing asset. Where the impairment cannot be cured at a cost that the recovered value will justify, the right answer is not rescue but disposal, and an honest adviser will say so.

4.5 Reading Across the Quadrants

Real situations rarely sit cleanly in a single quadrant, and the taxonomy is most useful when it is used to decompose a messy situation into its parts rather than to pigeon-hole it. A stalled development whose sponsor has also become insolvent combines a financing problem with a control problem; a broken off-plan scheme whose location has also weakened combines a delivery problem with the beginnings of economic impairment. The discipline the taxonomy imposes is to ask, for each element of the distress, which axis it sits on and therefore which kind of remedy it calls for. A single asset may need senior rescue money to complete the build, a buyer settlement to clear the off-plan overhang and a change of sponsor to fix the control problem, and recognising that it needs all three is the first step to pricing and sequencing them.

The taxonomy also helps a financier decide what it is good at. Some providers are natural senior rescuers, comfortable funding completion against milestones but unwilling to take control risk; others are loan-to-own specialists who want exactly the control situations that the first group avoids; others again are operators who add most value in the joint-venture and repositioning cases. Matching the provider to the quadrant is as important as matching the structure to it, because a provider asked to operate outside its competence will either misprice the risk or fail to execute, and a sponsor is well advised to seek the rescuer whose appetite fits the shape of the problem.

The value of the taxonomy is that it disciplines the first conversation. Before anyone reaches for an instrument, the parties should agree which quadrant they are in, because a disagreement about the quadrant is really a disagreement about the nature of the problem, and that must be resolved first. Figure 2 turns to the structures that each quadrant calls for.

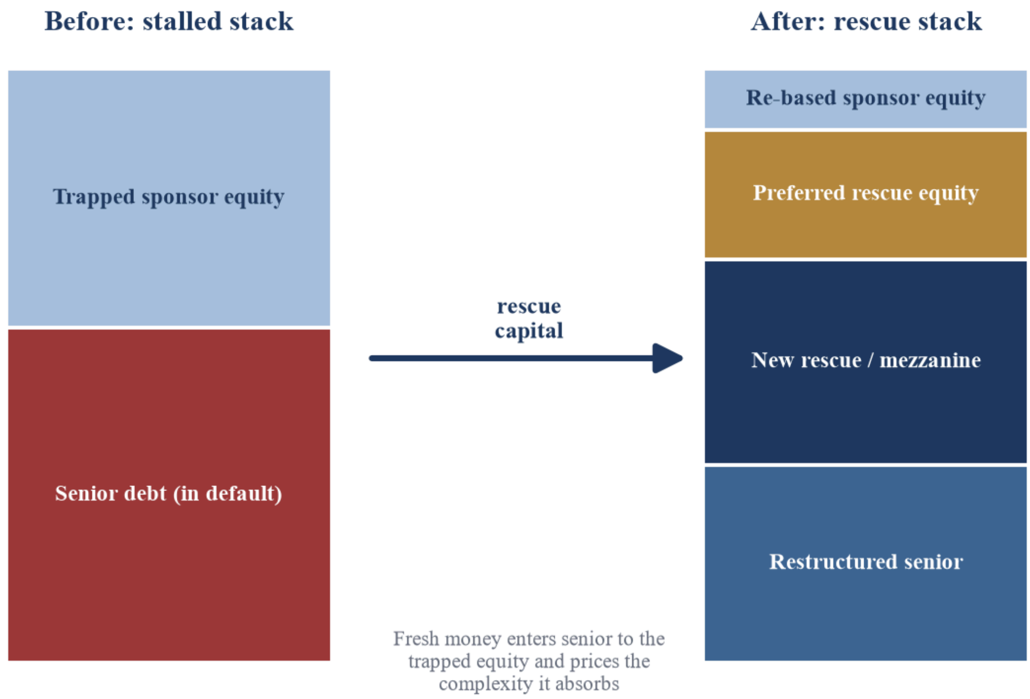

Figure 2. How Rescue Capital Re-Orders a Stalled Capital Structure

Illustrative schematic. Fresh rescue capital enters senior to the trapped sponsor equity and alongside a restructured incumbent, re-basing the sponsor and pricing the complexity it absorbs.

5. THE MENU OF RESCUE STRUCTURES

Once the situation is diagnosed, the question becomes which instrument to use. Rescue capital is not a single product; it is a family of structures, each suited to a particular configuration of cause, stage and counterparty. This section sets out the principal options, in roughly ascending order of the control they require, and explains when each fits.

5.1 Senior Rescue Financing

The cleanest rescue is a new senior facility that enters ahead of the trapped capital and funds the asset to completion or stabilisation. It works best in a stalled development where the cost to complete is well covered by the completed value and where the incumbent lender can be either taken out or persuaded to accept a junior position. Because it ranks first, senior rescue capital is the safest money in the structure, and it should be priced accordingly, though the price will still reflect the work of stepping into a broken situation. Senior rescue is almost always staged against milestones, so that the provider funds completion in tranches and never advances more than the de-risked portion of the plan.

5.2 Rescue Mezzanine and Preferred Capital

Where a senior lender remains in place but more capital is needed than the senior will provide, a mezzanine or preferred tranche fills the gap. It ranks behind the senior but ahead of the sponsor, and it typically carries a higher coupon and some equity-like upside to compensate for its position. Rescue mezzanine suits an over-levered standing asset that can support a sensible senior loan but needs a top-up to refinance the incumbent, and it suits a stalled development where the senior rescuer will fund construction but wants a junior layer to absorb the first loss. The art of mezzanine is in the intercreditor arrangement, the agreement between the senior and the mezzanine on who controls what, and the better that document, the more likely the rescue holds together under stress.

5.3 Joint Venture and Forward-Sale Solutions

Not every rescue is debt. In many situations the missing ingredient is not only capital but capability: a credible operator to complete and run the asset, or a committed buyer for the completed product. A joint venture brings in a partner who supplies both equity and execution, taking a share of the asset in return for rescuing it. A forward sale brings in a buyer who agrees to purchase the completed asset, providing the certainty that allows a financier to lend against contracted proceeds. Both structures suit broken-delivery situations, where the problem is as much about confidence and completion capability as about money, and both dilute the original sponsor in exchange for resolving the situation.

5.4 Loan-to-Own and Control Strategies

At the far end of the spectrum sits the loan-to-own strategy, in which a provider lends with the expectation, and the contractual ability, to convert the loan into ownership if the sponsor cannot perform. Loan-to-own is appropriate where the sponsor is the problem, through inability, intransigence or insolvency, and where the asset can only be rescued by a change of control. It is the most adversarial of the structures and the most demanding to document and enforce, particularly in jurisdictions where enforcement is slow, but it is sometimes the only route to value. A sponsor facing a loan-to-own proposal should understand that it is, in effect, a priced option on the keys to the asset, and should negotiate the strike of that option carefully.

5.5 Discounted Payoff and Note Purchase

A final route addresses the incumbent debt directly. Where an existing lender is impaired and wishes to exit, a special-situations investor can purchase the loan at a discount to its face value and then either restructure it consensually with the sponsor or enforce it. Buying the debt rather than lending fresh money changes the investor's position fundamentally, they become the senior creditor, with all the rights that implies, and it is often the most efficient way to gain control of a situation where the real obstacle is an unwilling incumbent. The discount at which the note is bought sets the investor's basis and, with it, the range of outcomes that will produce an acceptable return.

5.6 Combining Structures

The structures above are presented separately for clarity, but the rescues that close most often combine them. A typical resolution of a large stalled scheme might pair a senior rescue facility, staged to construction milestones and ranking first, with a mezzanine tranche that absorbs the gap between the senior and the cost to complete, and a re-basing of the sponsor's equity that recognises the value already lost. A broken off-plan rescue might combine completion finance with a forward sale to an institutional buyer and a buyer-settlement programme negotiated with the regulator. The art of the structurer lies in assembling these elements so that each party is paid for the risk it actually takes and each is willing to sign, and a structure that is elegant on paper but leaves one essential party unwilling is no structure at all.

Combination also matters for the incumbent lender, whose consent is frequently the gating item. An incumbent that refuses to be primed or restructured can block a senior rescue, which is why the menu includes the option of buying that incumbent out at a discount. The choice between persuading the incumbent and replacing it is one of the central judgements of a rescue, and it turns on the incumbent's own position: a lender that is deeply impaired and wishes to exit is a candidate for a note purchase, while a lender that expects to recover in full is more likely to accept a consensual restructuring that preserves its position behind the fresh money.

Table 2. Mapping Rescue Structures to Situations

Illustrative mapping. The fit is typical; in practice several structures may be combined in a single rescue.

Structure	Best-fit situation	Rank / control	What it asks of the sponsor
Senior rescue financing	Stalled development, clear cost to complete	Senior, staged	Accept priming; deliver a milestone plan
Rescue mezzanine / preferred	Over-levered asset; gap above senior	Junior to senior, senior to equity	Cede coupon and some upside
JV / forward sale	Broken delivery; capability gap	Equity / contractual	Dilute ownership; share control
Loan-to-own	Sponsor is the obstacle	Senior with conversion	Risk losing the asset on non-performance
Discounted payoff / note purchase	Impaired incumbent wishes to exit	Becomes the senior	Negotiate with a new, motivated creditor

6. THE RECOVERY WATERFALL AND THE PRICE OF COMPLEXITY

Every rescue structure is, in the end, a claim on a future pool of value, and the recovery waterfall is the rule that allocates that pool. Understanding the waterfall is the key to understanding both why fresh money is willing to enter a distressed situation and why it is priced as it is. Figure 3 sets out an illustrative waterfall for a rescued asset, indexing the gross exit value to 100 and showing how the proceeds are consumed in order of priority.

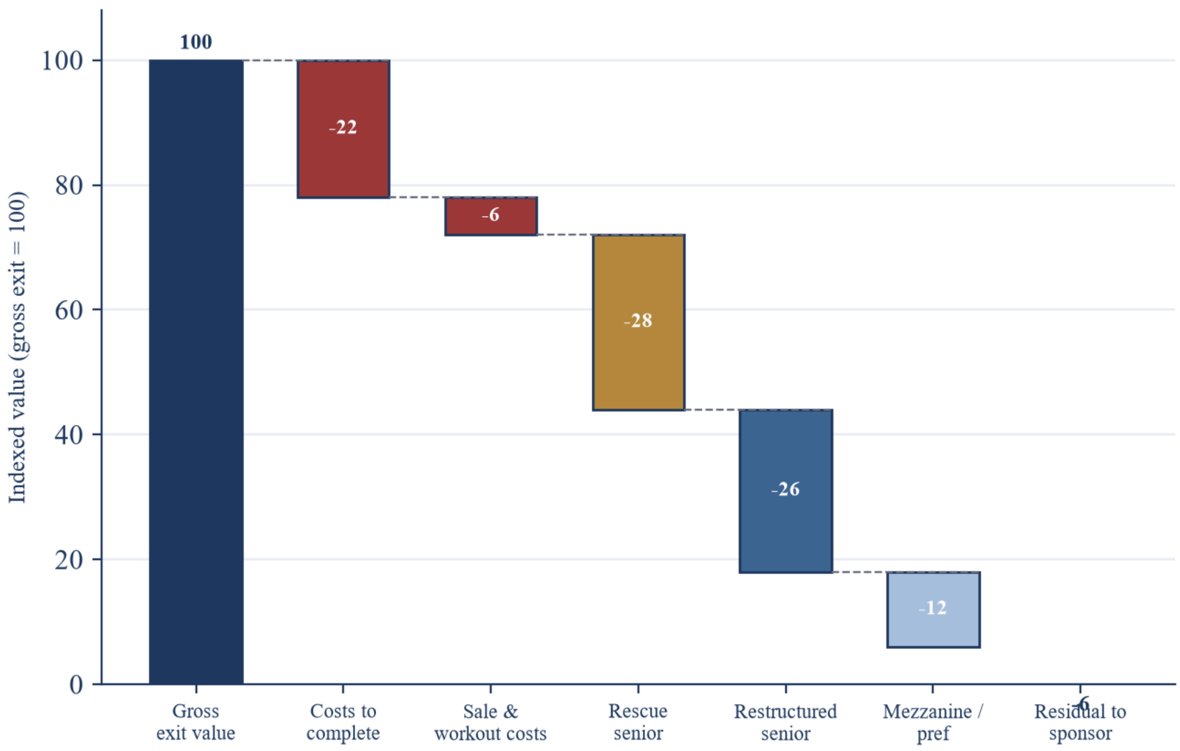

Figure 3. An Illustrative Recovery Waterfall for a Rescued Asset

Illustrative, indexed values (gross exit = 100). Proceeds are consumed in order of priority: costs first, then rescue senior, then the restructured incumbent, then mezzanine, with the residual to the sponsor.

6.1 Reading the Waterfall

The waterfall begins with the gross value the asset realises on exit, whether through sale, refinancing or stabilisation. From that gross figure come, first, the costs that must be paid before any financier sees a return: the cost to complete the asset and the transaction and workout costs of the rescue itself. Only after those costs are met does the recovery reach the financiers, and it reaches them strictly in order of seniority. The rescue senior, the fresh money, is paid first, which is precisely why it was willing to come. The restructured incumbent is paid next, having accepted a re-based position. Then comes the mezzanine or preferred layer. Whatever remains, and in a distressed situation it is often little, flows to the sponsor's re-based equity.

Two features of the waterfall deserve emphasis. The first is that the protection of the fresh money is structural, not merely contractual: it is paid first because the costs and the senior tranche sit at the top of the order, and that ordering is the reason a rescuer can enter a situation the market regards as distressed and still hold a relatively safe position. The second is that the sponsor's residual is the shock-absorber of the structure. Because the sponsor sits last, almost all of the variance in the outcome, good or bad, lands on the sponsor's equity, which is both the price the sponsor pays for having reached distress and the reason the sponsor retains the strongest incentive to maximise the exit value.

6.2 Why Complexity, Not Just Loan-to-Value, Sets the Price

A common error among sponsors is to assume that rescue capital should be priced on loan-to-value alone, as if it were ordinary development finance with a slightly higher margin. It is not. The price of rescue capital reflects the complexity it absorbs, and complexity is largely a function of the number of parties whose consent is required and the degree to which their interests are misaligned. A stalled development with one co-operative incumbent lender and a clean title is far cheaper to rescue than a broken off-plan scheme with hundreds of buyers, an escrow regime, a regulator, an insolvent contractor and an intransigent lender, even if the two assets have identical loan-to-value ratios. The second situation consumes more time, more legal cost and more execution risk, and the rescue capital is priced for all of it.

This has a practical implication for sponsors that is worth stating plainly. The most effective way to reduce the cost of rescue capital is not to argue about the margin; it is to reduce the complexity before approaching the market. A sponsor who arrives with the incumbent lender already aligned, the buyer position already understood, the contractor claims already quantified and a credible milestone plan already drafted will pay materially less than a sponsor who arrives with a pile of unresolved problems and asks the rescuer to untangle them. The work of de-risking the situation is value-creating, and most of that value accrues to whoever does the work.

6.3 Pricing the Stages

Because rescue capital is staged, its pricing is also staged, and the two should move together. The earliest money, advanced when the asset is at its most uncertain, carries the most risk and should earn the most. As milestones are achieved and risk is retired, later tranches are safer and can be priced more finely. A well-designed rescue makes this explicit, so that the blended cost of the capital reflects the genuine risk profile of the asset over the life of the workout rather than a single undifferentiated rate. For the sponsor, this is an opportunity as much as a cost: by demonstrating progress and retiring risk, the sponsor earns access to cheaper capital, and a milestone plan is therefore also a pricing plan.

6.4 The Special-Situations Fund's Perspective

It is worth turning the waterfall around and reading it from the point of view of the fund that supplies the rescue capital, because understanding what the fund needs is the surest way for a sponsor to obtain its money on reasonable terms. A special-situations fund underwrites to a base case in which the rescue succeeds and the asset exits at or above the modelled value, but it sizes its position and its return for a downside in which the asset disappoints. Its protection against that downside is its place in the waterfall and the quality of its security, and its return is calibrated so that the base case rewards it for the complexity it absorbs and the downside does not impair its capital. A sponsor who presents a credible base case, a defensible downside and clean security gives the fund what it needs to price keenly; a sponsor who presents only an optimistic base case forces the fund to price the uncertainty it has been left to guess at.

The fund also cares intensely about control in the downside. It will negotiate for the rights, through covenants, step-in provisions and intercreditor terms, to intervene if the rescue drifts off plan, because its capital is protected only if it can act before value leaks away. A sponsor often experiences these rights as intrusive, but they are the price of fresh money entering a situation that the market has written off, and a sponsor who understands their purpose can negotiate their scope rather than resisting them wholesale. The most durable rescues are those in which the control rights are calibrated to the actual risks rather than imposed as boilerplate, because over-broad rights breed conflict and under-broad rights leave the fund exposed.

7. THE GCC CONTEXT IN 2026

Special situations are intensely local, because the law, the enforcement regime and the market context determine which structures can actually be implemented. This section sets out the features of the GCC environment that shape rescue financing in 2026.

7.1 A Maturing Market for Distress

The most important contextual fact is that the GCC now has, for the first time, a reasonably deep market of capital willing to finance distress. A decade ago, a stalled Gulf development had few options beyond the original lender and the courts; today, a growing population of private credit funds, special-situations investors and family offices with the appetite and the patience for complexity competes to provide rescue capital. This depth changes the dynamics fundamentally. It gives sponsors alternatives, it disciplines pricing through competition, and it makes consensual restructuring, rather than enforcement, the normal path. A market with capital resolves distress through finance; a market without it resolves distress through litigation, and the GCC has moved decisively towards the former.

7.2 Enforcement, Title and Security

The enforceability of security is the bedrock on which rescue capital rests, and the picture across the major GCC jurisdictions has improved markedly. Mortgages, charges and assignments of receivables are recognised and registrable; the financial free zones provide common-law frameworks with experienced courts; and the onshore regimes have modernised their insolvency and security laws. The qualification, and it is an important one, is that enforcement can still be slower than in the most developed markets, which reinforces the central message of this paper: the better outcome is almost always a consensual restructuring negotiated in the shadow of enforcement rather than the enforcement itself. A rescuer prices the speed and certainty of enforcement, not merely its ultimate availability, into the structure.

7.3 Off-Plan, Escrow and the Buyer Question

The GCC's reliance on off-plan sales to fund development gives the broken-delivery situation a particular prominence and a particular complexity. The escrow regimes that protect buyers' deposits are a strength of the market, but they also mean that a rescuer of a broken off-plan scheme must engage with the escrow account, the regulator and the buyers themselves, whose claims and expectations cannot simply be financed away. A rescue of a broken off-plan asset is therefore as much a stakeholder-management exercise as a financing one, and the structures that work are those that bring the buyers into the solution, through completion guarantees, revised handover commitments or, where necessary, settlements, rather than treating them as an obstacle.

7.4 Shariah Considerations

A meaningful share of GCC capital and a meaningful share of GCC sponsors require Shariah-compliant structures, and rescue financing is no exception. The good news is that the toolkit of Islamic finance is well suited to real-asset rescues: structures based on the sale and lease of the asset, on diminishing partnership, or on cost-plus financing can replicate the economics of conventional senior, mezzanine and equity rescue capital while remaining compliant. The structuring is more involved, and it requires scholarly sign-off, but it does not foreclose any of the situations in the taxonomy. A rescuer operating in the GCC who cannot offer a compliant structure cuts itself off from a large part of both the capital and the deal flow.

7.5 What a Sponsor Should Take from the GCC Context

For a Gulf developer holding a broken asset, the context of 2026 carries a clear and encouraging message. The capital exists; the legal framework to secure and enforce it has matured; and the structures, conventional and Shariah-compliant alike, are available. The constraint is no longer the absence of a market but the sponsor's own readiness to engage with it. A sponsor who approaches the market having diagnosed the situation honestly, reduced the complexity, understood the escrow and buyer position and accepted that some value has been lost will find willing counterparties on competitive terms. A sponsor who approaches it in denial about the nature of the distress, hoping that capital will paper over an economic problem, will find that the market sees through the hope and prices accordingly. The maturity of the market rewards realism and penalises its absence.

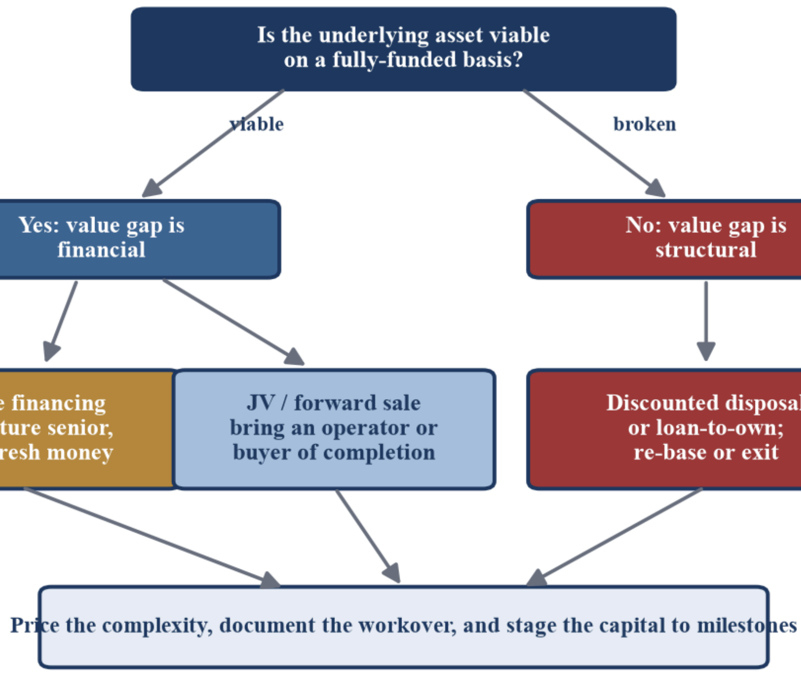

Figure 4. A Triage Path from a Stalled Asset to a Funded Rescue

Illustrative decision schematic. The first question separates financial from structural distress; the branches lead to the rescue posture each situation calls for, ending in a priced, staged structure.

8. A TRIAGE AND EXECUTION PLAYBOOK

The framework comes together in a sequence of steps that takes a broken asset to a funded rescue. Figure 4 sets out the logic; this section walks through it. The playbook is written so that a sponsor and a special-situations fund can each see their part in it, because the deals that close are the ones where both sides follow the same map.

8.1 Step One: Diagnose the Distress

The first step, and the one on which everything else depends, is to establish whether the asset is economically or financially distressed, and into which quadrant of the taxonomy it falls. This requires an honest valuation on a fully-funded basis, a clear-eyed assessment of the cost to complete or to cure, and a map of the parties and their claims. A sponsor who rushes this step, or who tells the rescuer what the rescuer wants to hear, poisons the process, because the diagnosis will surface during diligence and the discovery of a concealed problem destroys trust and re-prices the deal.

8.2 Step Two: Reduce the Complexity

The second step is to remove as much complexity as possible before the capital is priced. This means aligning the incumbent lender, or at least understanding their position; quantifying and where possible settling contractor and sub-contractor claims; understanding the buyer and escrow position in an off-plan situation; and confirming that title and security are clean. Every problem resolved before the market is approached is a problem the rescuer does not have to price, and Section 6 explained why this work is the single most effective lever a sponsor has on the cost of capital.

8.3 Step Three: Select the Structure

The third step is to choose, from the menu of Section 5, the structure that fits the quadrant and the counterparties. A clean stalled development calls for senior rescue staged to milestones; an over-levered standing asset calls for a refinancing with perhaps a mezzanine layer; a broken off-plan scheme calls for completion finance combined with a buyer settlement and possibly a forward sale or joint venture; a situation in which the sponsor is the obstacle calls for a loan-to-own or a note purchase. The structure should follow the diagnosis, not the other way around, and a rescuer who reaches for a favoured instrument before understanding the situation will misprice the risk.

8.4 Step Four: Stage the Capital and Document the Priority

The fourth step is to build the structure so that the fresh money is protected and the capital is released against milestones. This is where the recovery waterfall of Section 6 is turned into documents: the ranking of the fresh money, the intercreditor arrangement with any incumbent, the conditions to each drawdown, and the remedies if a milestone is missed. The quality of this documentation determines whether the rescue holds together when the asset, as distressed assets do, springs a further surprise. A well-documented rescue survives the surprise; a poorly-documented one unravels into the very dispute it was meant to avoid.

8.5 Step Five: Execute and Monitor

The final step is execution: completing or curing the asset, achieving the milestones, releasing the staged capital, and steering the asset to its exit. Special situations demand active monitoring, because the assumptions on which the rescue was priced are tested continuously and the early detection of a slippage is what allows it to be corrected cheaply. The sponsor and the rescuer share an interest here that the adversarial framing of distress can obscure: both want the exit value maximised, because both are paid from the same waterfall, and the most successful rescues are the ones in which that shared interest is recognised and acted upon.

8.6 Common Mistakes on Both Sides

Because the same errors recur, it is worth naming them. Sponsors most often err by waiting too long, by the time many sponsors accept that they need rescue capital, value has leaked, claims have hardened and options have narrowed, so that the cost of the rescue is higher than it needed to be. They err, too, by concealing problems in the hope of a better headline, which invariably surfaces in diligence and re-prices the deal against them, and by negotiating the margin while neglecting the complexity that actually drives the price. Funds err in the opposite direction: by underestimating the time and the friction that a multi-party rescue involves, by pricing on loan-to-value alone and discovering the complexity later, and by drafting control rights so broad that they antagonise a sponsor whose co-operation the rescue still needs. The remedy in every case is the same discipline the framework prescribes: diagnose early, reduce complexity, price it honestly, stage the capital and document the priority.

A final mistake is shared by both sides and is perhaps the most damaging: treating the rescue as a zero-sum negotiation rather than a joint project to recover value. Distress does create genuine conflicts of interest over how a diminished pie is divided, and those conflicts must be resolved on terms. But beneath the division sits a common interest in making the pie as large as possible, because both the sponsor's residual and the fund's return are drawn from the same exit value. The parties who keep that common interest in view, even as they negotiate hard over the division, are the ones who complete the asset, achieve the exit and leave a broken situation whole. The parties who lose sight of it litigate over the wreckage.

9. CONCLUSION

Distressed and stalled real estate looks, from the outside, like a problem of bad assets. Seen correctly, it is usually a problem of broken capital structures attached to assets that are sound or curable. This paper has argued that the way to resolve such situations is to diagnose them before financing them, to separate the economic distress that capital cannot cure from the financial distress that it can, and then to apply a structure that fits the cause and the stage of the problem.

The framework set out here, a taxonomy that sorts situations, a menu of structures that maps to them, a recovery waterfall that protects and prices fresh money, and a playbook that sequences the work, is offered as a way of reasoning rather than as a formula. Its central claims are that the diagnosis matters more than the instrument, that fresh money enters only on terms that give it genuine priority, that the price of rescue capital reflects the complexity it absorbs rather than the loan-to-value alone, and that reducing that complexity is the most powerful lever a sponsor holds.

The GCC in 2026 is an unusually good place to apply this thinking. A long construction cycle has produced its tail of difficult situations, and for the first time a deep and competitive pool of private and special-situations capital stands ready to finance them. That combination turns what would once have been a courtroom problem into a financing market, and a financing market rewards the parties who understand its structure. The sponsor who understands what rescue capital demands, and the fund that understands what the sponsor can credibly deliver, will meet in the middle and close the deals that leave a broken asset whole again. That, in the end, is what special-situations real estate finance is for.

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APPENDIX A. BASE-CASE ASSUMPTIONS

The table below records the stylised assumptions used in the figures. They are illustrative calibrations chosen to make the structures legible and are not sourced data, forecasts or the terms of any actual transaction.

Table A1. Illustrative Base-Case Assumptions

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

Parameter	Illustrative value	Role in the analysis
Gross exit value (indexed)	100	Base of the recovery waterfall (Figure 3)
Cost to complete	22 of gross	First call on proceeds in the waterfall
Sale and workout costs	6 of gross	Transaction and restructuring costs
Rescue senior tranche	28 of gross	Fresh money, ranks first among financiers
Restructured senior	26 of gross	Re-based incumbent position
Mezzanine / preferred	12 of gross	Junior to senior, senior to equity
Residual to sponsor	6 of gross	Shock-absorber of the structure
Staging	Milestone-linked	Capital released as risk is retired

APPENDIX B. RESCUE DILIGENCE CHECKLIST

The following checklist distils the framework into the questions a sponsor or a special-situations fund should answer before committing to a rescue.

- Have we established whether the asset is economically or financially distressed, on a properly valued, fully-funded basis?
- Have we placed the asset in the correct quadrant of the taxonomy, by cause and by stage of distress?
- Is the cost to complete or to cure comfortably less than the value the rescued asset will realise?
- Have we mapped every party with a claim, including the incumbent lender, contractors, buyers, escrow agents and regulators?
- Have we reduced the complexity, by aligning the incumbent and quantifying claims, before pricing the capital?
- Does the chosen structure fit the quadrant, and does the fresh money have genuine priority in the recovery waterfall?

- Is the capital staged against milestones that actually retire risk, with clear conditions to each drawdown?
- Is the structure enforceable and, where required, Shariah-compliant in the relevant GCC jurisdiction?
- Have we documented the intercreditor position and the remedies for a missed milestone?
- Have we taken qualified local legal, tax and valuation advice on the specific situation?

APPENDIX C. GLOSSARY OF KEY TERMS

The following glossary defines the principal terms used in this paper for readers less familiar with special-situations finance.

Special situation. A financing opportunity arising from distress, complexity or a corporate or capital event, where the value depends on resolving the situation rather than on the asset alone.

Economic distress. A condition in which an asset is worth less than its cost, so that the loss is real and cannot be cured by financing.

Financial distress. A condition in which a fundamentally sound asset is impaired by an unsustainable or failed capital structure, which capital can repair.

Rescue financing. Fresh capital provided into a distressed situation, typically ranking ahead of the capital it rescues and staged against milestones.

Recovery waterfall. The order in which the proceeds of an asset are allocated among costs and claimants, from senior to junior.

Priming. The placing of new money ahead of an existing lender in the order of priority, usually by agreement or under an insolvency regime.

Mezzanine. A layer of capital ranking between senior debt and equity, carrying a higher return to compensate for its junior position.

Loan-to-own. A strategy in which a lender expects, and contractually provides for, conversion of its loan into ownership of the asset.

Discounted payoff. The purchase or settlement of an existing loan at less than its face value.

Forward sale. A commitment by a buyer to purchase a completed asset, providing certainty against which a financier can lend.

Escrow regime. The legal framework, prominent in GCC off-plan sales, under which buyers' deposits are held and released against construction progress.

Intercreditor arrangement. The agreement among the providers of capital in a structure on ranking, control and the exercise of remedies.