

Client Alert

Finance & Restructuring

JULY 3, 2025

For more information, contact:

Malek Al Rifai
+971 4 377 9953
malrifai@kslaw.com

Nabil A. Issa
+971 4 377 9909
nissa@kslaw.com

Michael Rainey
+971 4 377 9986
mrainey@kslaw.com

Asal Saghari
+971 4 377 9962
asaghari@kslaw.com

Alexander Barker
+971 4 377 9978
abarker@kslaw.com

King & Spalding

Dubai
Al Fattan Currency House
Tower 2, Level 24
Dubai International Finance Centre
P.O. Box 506547
Dubai, UAE
T. +971 4 377 9900

The Evolving Face of Finance: The Rise of Private Credit in Real Estate

INTRODUCTION

This is our third client briefing in our “Evolving Face of Finance” series which considers private credit’s emergence in the real estate sector in the Middle East and which follows on from our previous client briefing on [Private Credit’s Role in the Middle East](#).

Private credit is emerging as a significant force in the Middle East’s evolving real estate finance landscape. Across the Gulf Cooperation Council region (the **GCC**) - and particularly in the United Arab Emirates (the **UAE**) and Saudi Arabia - real estate sponsors are increasingly turning to non-bank capital providers to fund acquisitions, development projects, and portfolio refinancings. This shift is being driven by a combination of factors: tightening bank credit, the growing presence of institutional sponsors, and heightened uncertainty over the future direction of global interest rates. In this context, private credit offers a valuable source of tailored, efficient, and strategically aligned capital. Whether it is used to unlock liquidity, navigate transitional asset periods, or execute complex business plans, private credit is fast becoming a core component of capital structuring across the region. This Client Alert explores the mechanics of real estate private credit financings, the financing structures most commonly used in the UAE, and the key legal and regulatory considerations for investors and borrowers alike.

WHAT IS REAL ESTATE PRIVATE CREDIT?

Real estate private credit refers to non-bank, privately negotiated loans and credit instruments secured by real estate assets or cash flows. Unlike traditional bank lending, private credit offers structuring flexibility, speed of execution, and the ability to price risk in a bespoke manner. It encompasses the entire spectrum of the capital stack, including senior debt, mezzanine loans, preferred equity, and hybrid instruments.

Borrowers include real estate developers, asset owners, operating platforms, and sponsors across various asset classes.

WHAT'S DRIVING THE GROWTH OF REAL ESTATE PRIVATE CREDIT?

The growing significance of real estate private credit in the GCC can be attributed to a number of factors, including, in particular, the following:

Regulatory and Structural Maturity

Jurisdictions such as the Dubai International Financial Centre (the **DIFC**) and Abu Dhabi Global Market (the **ADGM**) have established robust legal frameworks that support the enforceability of private lending arrangements, contributing to market confidence. At the centre of these legal frameworks are the private credit fund regimes set up by the Dubai Financial Services Authority in June 2022 for the DIFC and the Financial Services Regulatory Authority in May 2023 for the ADGM.

Market Precedent and Institutional Comfort

At the same time, the number of private credit transactions in the UAE has been steadily increasing, contributing to market normalisation and growing precedent value. Institutional private credit lenders - particularly funds based in the U.S. and Europe - are becoming more comfortable with the UAE's legal and enforcement framework. Their confidence has been further strengthened as a result of various risk mitigation measures, including robust security packages, enforceable security arrangements, contractual protections, and lender friendly dispute resolution mechanisms. These safeguards provide greater certainty and help institutional lenders navigate potential risks in this jurisdiction.

Flexibility in Loan Terms

Private credit offers borrowers significantly more flexible terms than traditional bank loans in areas such as amortisation schedules, covenants and interest payment structures. This enables sponsors to align financing terms with the commercial realities of their projects, particularly for transitional or early-stage assets.

INTEREST RATE UNCERTAINTY: A DOUBLE-EDGED SWORD FOR PRIVATE CREDIT

Recent geopolitical developments, including changes to the global trading system, have introduced additional uncertainty to financial markets that is affecting capital flows, investor sentiment, and long-term funding strategies across asset classes. Unpredictability around the direction of interest rates – whether they will rise, fall, or stay elevated – affects private credit in several ways:

Positive Effects

- Greater Demand from Borrowers

When sponsors are unsure whether rates will increase, they may prefer to lock in medium-term financing now, even at a premium, especially if private credit offers fixed or capped rates. This drives demand for private credit.

- Floating Rate Advantage for Investors

While traditional banks also offer floating-rate loans, private credit lenders benefit more directly from this pricing structure. Without regulatory constraints on spread, private credit providers can price more aggressively and capture enhanced yields. Floating-rate pricing - typically linked to EIBOR - is often coupled with other return-enhancing features such as exit fees or equity kickers. This makes private credit particularly appealing in a rising or volatile interest rate environment, offering investors an inflation-hedged and market-responsive return profile.

- Structuring Opportunities

Interest rate volatility incentivises the use of features like interest rate caps, step-ups, or interest deferrals - mechanisms that private lenders can price in creatively and flexibly. In addition, private credit can offer hybrid solutions that combine characteristics of both debt and equity, such as preferred equity or convertible instruments. These structures enable alignment with the business plan while managing repayment pressure and protecting downside. The ability to negotiate bespoke terms tailored to the specific risk profile of the asset or sponsor gives private lenders a distinct advantage over traditional financing sources, especially in uncertain or transitional environments.

Negative effects

- Higher Cost of Capital

Uncertainty in rate direction generally increases the risk premium that lenders require to extend credit, resulting in higher borrowing costs for sponsors. For projects with marginal returns or tight underwriting metrics, this can make private credit more expensive and potentially less accretive to equity returns. Borrowers may also be asked to accept more conservative terms, such as increased equity contributions or additional security packages, to offset perceived refinancing or market risk.

- Exit Timing Risk

For lenders, interest rate uncertainty can create complications in underwriting exit strategies. If rates rise sharply and refinancing markets tighten, a borrower's ability to refinance or sell the asset at a targeted valuation may be compromised. This risk is particularly relevant for transitional assets or development deals with no take-out in place. As a result, private credit providers often price in additional buffers or structure downside protections - such as extension fees, minimum return covenants, or step-up interest features - to mitigate exit volatility.

KEY FINANCING STRUCTURES

Private credit in the UAE real estate sector typically takes the form of bespoke financing arrangements tailored to the lifecycle, risk profile, and income characteristics of the underlying asset as well as the identity of the borrower. While the specifics vary across transactions, several core structures are typically deployed by private credit funds:

Development Financing

Private credit is increasingly used to fund ground-up developments or major refurbishments, particularly in cases where traditional bank financing is constrained or unavailable. These loans can take the form of either senior secured facilities or mezzanine financings, depending on the sponsor's capital structure and the desired level of leverage. Senior loans are typically secured by first-ranking mortgages over the land and development rights and are disbursed in tranches against construction milestones. Mezzanine structures, on the other hand, are often secured by security over shares and subordinated cash flows, providing additional funding beyond the limits of senior debt.

In many development deals in Dubai, private credit is also used to finance receivables or facilitate "profit unlock" transactions. These involve lending against amounts held in escrow accounts maintained with the Real Estate Regulatory Agency (**RERA**). Under local regulations, developers cannot access these funds until certain construction milestones are met. Private credit can step in to bridge this timing gap by enabling developers to unlock profits already earned but not yet available for withdrawal, thereby improving liquidity and supporting the project's continued execution.

Acquisition and Bridge Financing

In competitive acquisition scenarios or time-sensitive transactions, private credit offers a viable and often faster alternative to traditional bank financing, which may be slower due to underwriting timelines, internal credit approvals, and regulatory constraints. Private credit lenders are typically able to underwrite deals based on asset fundamentals and sponsor track record, allowing for more expedited decision-making and execution.

Bridge loans are commonly used in these situations to close transactions ahead of longer-term refinancings or asset stabilisation. These facilities are structured as short-to-medium-term instruments (typically ranging from 12 to 18 months) with bullet repayments at maturity and usually fixed interest rates. They are often interest-only during the term and may include extension options to accommodate evolving business plans.

Sponsors may also layer in mezzanine financing to enhance leverage and reduce the upfront equity contribution required. This is particularly common in acquisitions involving value-add or repositioning strategies, where the business plan relies on rental uplift, tenant reconfiguration, or capex deployment to drive value.

Bridge financing is particularly attractive for opportunistic buyers and transitional assets, such as hotels undergoing brand conversion, office assets being repositioned for co-working or mixed-use, or underutilised land parcels with near-term development potential. In such cases, private credit lenders may be more willing than traditional banks to look through temporary underperformance and lend against forward-looking cash flow assumptions or exit valuations.

In some transactions, private credit providers may also offer partial holdbacks or delayed draw features, enabling the borrower to access capital in phases as conditions are met - such as tenant onboarding, permit issuance, or milestone achievements. This approach not only mitigates lender risk but also aligns capital deployment with the asset's transformation trajectory.

Overall, the flexibility, speed, and structural creativity associated with acquisition and bridge financings make private credit an option for sponsors pursuing time-sensitive opportunities with strong potential in the UAE real estate market.

HoldCo-Level Financings

HoldCo-level financings have become increasingly common among institutional sponsors and family office-backed platforms. These transactions involve raising capital at the holding company level - rather than at the asset level - and are typically secured by share security over project companies and distribution rights. The loan proceeds are used to fund portfolio expansion, dividend recapitalisations, or for general corporate purposes. Structurally, these loans often include features such as distribution sweeps, cash traps, and financial covenants based on group-level metrics. The flexibility and discretion afforded by these structures make them well suited for sponsors managing diversified real estate portfolios.

When structuring HoldCo-level transactions in the UAE that are linked - directly or indirectly - to development financing, particular care must be taken with respect to escrow account regulations. Under the applicable regulatory regime, including the laws enforced by RERA, any loan proceeds intended to finance development costs must typically be disbursed into a project-specific escrow account. These accounts are governed by strict release conditions tied to verified construction milestones. As such, the structuring of the facility must account for this requirement, both in terms of disbursement mechanics and the flow of funds through the corporate structure.

Distressed Financing

Although the UAE real estate market is currently experiencing strong growth - particularly in residential and off-plan segments - private credit is expected to play a key role in the next market cycle, particularly in supporting distressed

assets and stressed capital structures. At present, developers have been able to pass on rising financing and construction costs to end purchasers, leveraging robust demand and upward price momentum. This pricing power has masked underlying pressure in some projects and enabled sponsors to maintain delivery schedules despite tighter liquidity.

However, if the market undergoes a correction - driven by sustained high interest rates, declining transaction volumes, or broader macroeconomic shifts - distress may emerge, particularly in the off-plan non-luxury segment. Developers reliant on forward sales and escrow-based financing may face challenges in maintaining construction timelines or securing sufficient advance payments from buyers. In such cases, private credit will be well-positioned to intervene.

Distressed financing solutions provided by private credit funds may include short-term rescue capital, bridge-to-recapitalisation facilities, or unit-backed loans secured by unsold inventory. In some scenarios, the financing may also include upside participation mechanisms such as profit shares or equity kickers to reflect elevated risk. These structures are especially valuable where developers are unable to refinance through conventional means or where existing capital stacks have broken down.

For lenders, distressed financing requires careful due diligence on project viability, regulatory status, and potential recovery strategies. This may involve direct engagement with escrow agents, contractors, and regulatory authorities, particularly where RERA-regulated projects are involved. Structuring flexibility and speed of execution remain critical differentiators for private credit in navigating such situations.

As the UAE market matures, distressed financing is expected to become a more visible component of the private credit landscape—particularly in cycles where access to bank financing tightens and project-specific stress increases.

CONCLUSION

The landscape for real estate private credit in the UAE is rapidly evolving. As local sponsors and global lenders gain familiarity with the jurisdiction's legal, regulatory, and market frameworks, private credit has emerged as a credible and increasingly relied upon source of capital across the capital stack. From development loans and bridge financing to recapitalisations and distressed solutions, the flexibility and customisation offered by private credit are meeting the specific needs of UAE-based real estate projects.

This evolution is taking place in parallel with a notable trend: the increasing presence of global hedge funds and private capital managers establishing a base in the UAE. These institutions are drawn by a range of strategic and commercial considerations. The UAE offers geographic centrality - with proximity to key markets across Asia, Europe, and the United States - making it an ideal platform for globally integrated investment strategies. Additionally, the UAE's business environment is underpinned by a favourable tax regime, including zero income tax for senior employees based in the UAE, which further enhances its appeal as a regional investment hub.

Beyond tax considerations, the country offers robust infrastructure, deepening financial markets, and a growing ecosystem of service providers and regulators attuned to the needs of alternative capital. Importantly, private credit funds are also becoming more familiar with the UAE's security and enforcement regimes, particularly in the DIFC, ADGM, and increasingly across onshore jurisdictions. As their understanding of local legal mechanics deepen, their willingness to transact in the region will be likely to grow.

Looking ahead, we expect to see a marked increase in the number and complexity of private credit transactions in the UAE real estate sector. As the ecosystem continues to mature - and as sponsors seek out capital solutions tailored to specific business plans - private credit will remain an essential part of the financing toolkit.

ABOUT KING & SPALDING

Celebrating more than 140 years of service, King & Spalding is an international law firm that represents a broad array of clients, including half of the Fortune Global 100, with 1,300 lawyers in 24 offices in the United States, Europe, the Middle East and Asia. The firm has handled matters in over 160 countries on six continents and is consistently recognized for the results it obtains, uncompromising commitment to quality, and dedication to understanding the business and culture of its clients.

This alert provides a general summary of recent legal developments. It is not intended to be and should not be relied upon as legal advice. In some jurisdictions, this may be considered "Attorney Advertising."

View our [Privacy Notice](#).