Private Debt Intelligence – 5/13/2019

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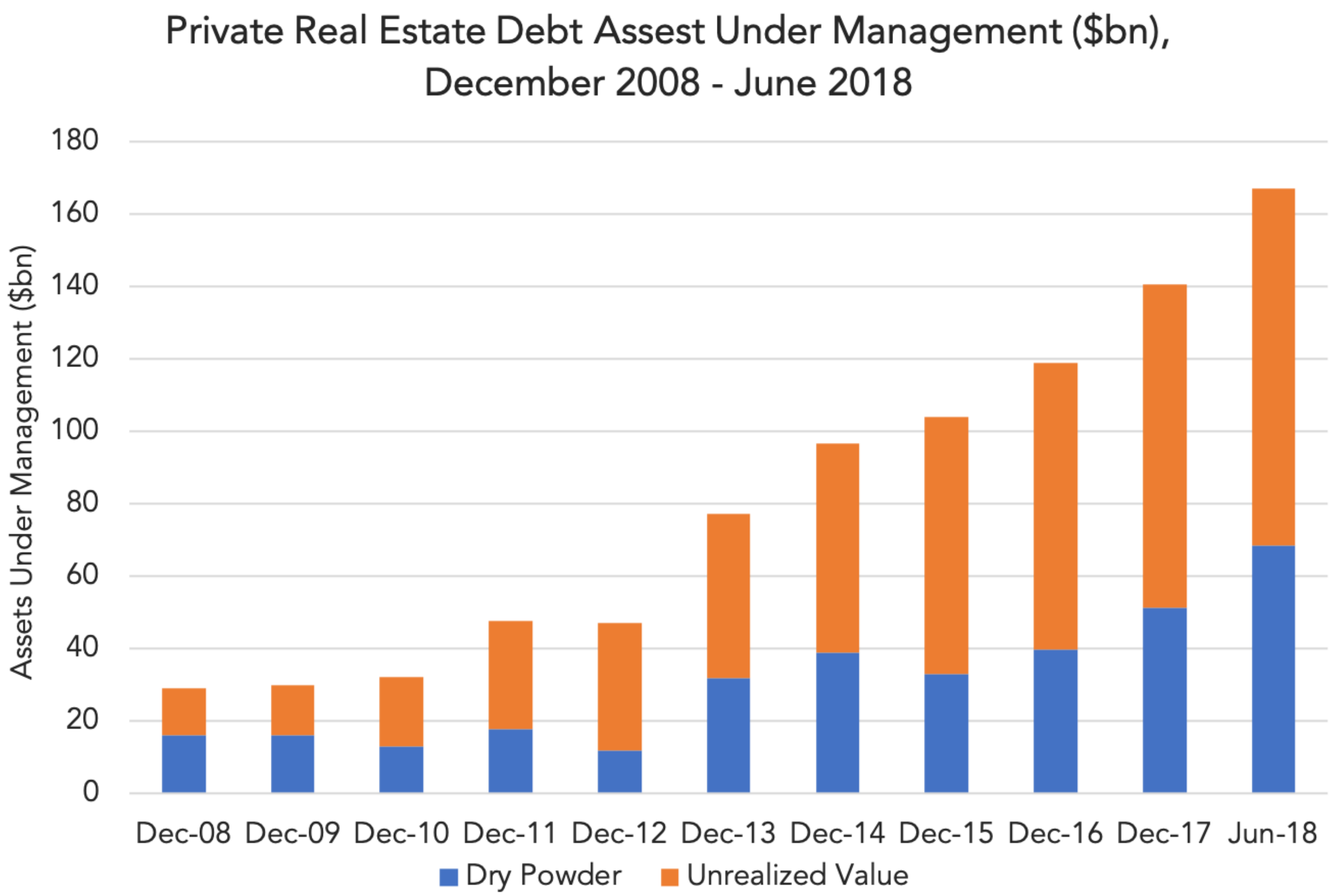
Private Real Estate Debt Attracts Investors

Chart



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The private real estate debt market has grown significantly in recent years as fund managers have sought to capitalize on the opportunity provided by banking regulation, and investors have targeted exposure to the stable income and portfolio diversification that debt investments can provide. However, it is not only the risk/return profile that attracted investors to debt strategies: investors likely have one eye out for a potential change in the equity market cycle, and the downside risk protection that debt investments offer at the top of the capital structure makes them more secure than low-yield equity investments in the event of a price shift.

Debt has been one of the fastest-growing investment segments within private real estate in recent years: debt assets represented just 7% of the private real estate industry in December 2008, and this has increased to 19% as of June 2018 (the latest available data). The level of capital available to fund managers for debt investments reflects the relative youth of the strategy. Across the private real estate market, dry powder sits at around 35% of total assets; for debt vehicles, however, this figure rises to 41%, with many debt funds yet to complete their investment periods. As of June 2018, private real estate debt holds $167bn in assets.

Once a niche segment, debt funds have secured $20bn or more in fundraising in five of the past six years. In 2017, there were a record number of private real estate debt funds closed (67), as well as a record level of aggregate capital secured ($33bn). This was driven by consistently large debt funds reaching a final close: 15 funds secured $1bn or more in 2017, significantly more than the four $1bn+ funds closed in 2016 and six in 2018. Last year ended with a total of 54 funds closed, raising $26bn; making it the largest amount raised in the past four years other than 2017. Fundraising activity in 2018 was buoyed by Broad Street Real Estate Credit Partners III closing in January on $6.4bn; the Goldman Sachs Group's fund is the largest private real estate debt fund ever raised.

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