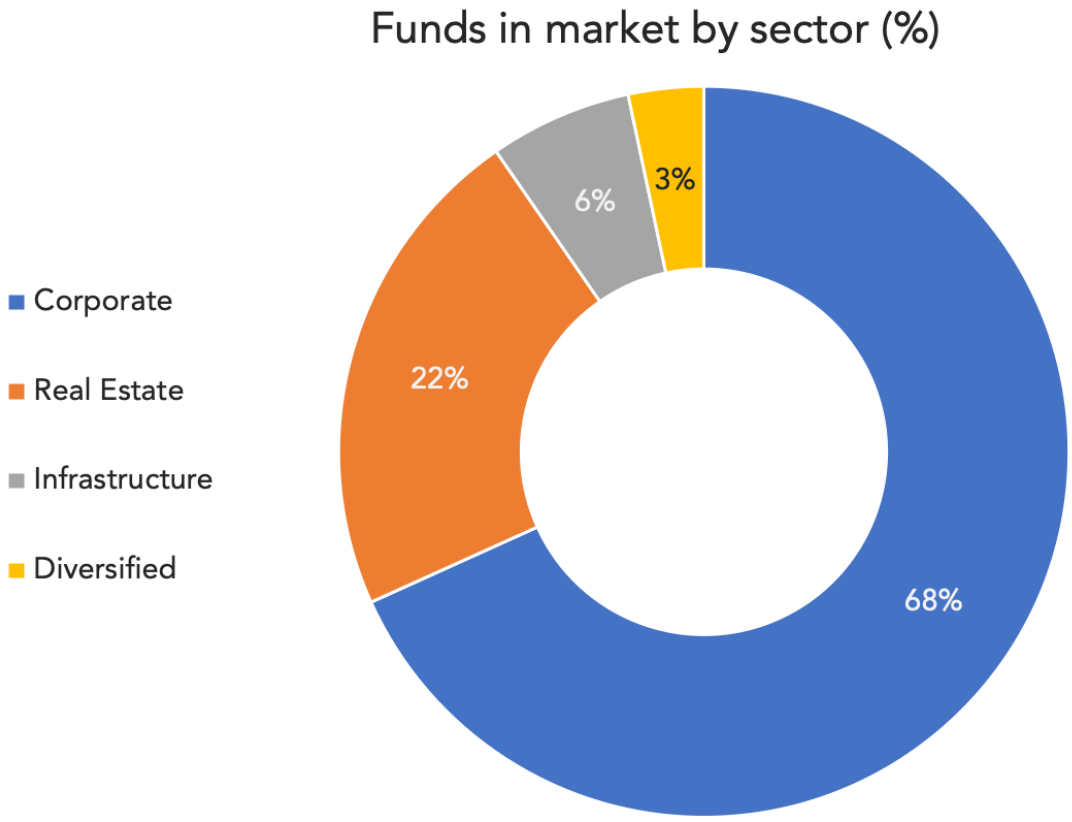
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Why investors are getting real

PEI Private Credit | February 18, 2020



In the UK and Europe, appetite for real estate and infrastructure debt is on the increase.

At *Private Debt Investor*, our main focus is on corporate loans, typically supporting M&A activity for middle-market companies sponsored by private equity firms. It is, if you like, our 'bread and butter'.

Outside of the corporate sphere, however, is the real assets universe – and this is a part of our world that appears to be growing. At the current time, as measured by funds currently being raised (see chart), it accounts for 28 percent of the market (real estate 22 percent and infrastructure 6 percent), compared with 68 percent for corporate-focused funds.

Recent research by UK-based consultancy Bfinance found limited partners increasingly favouring real assets debt over corporate debt. Last year, searches the firm conducted on behalf of investors for real asset debt outnumbered searches for corporate private credit in dollar terms for the first time.

Bfinance identified new investors entering the real asset debt sector, with defined-contribution pensions making their first investments in illiquid strategies, such as the UK's Nest scheme making infrastructure and real estate debt commitments last year.

Insurance companies are also moving into the space as regulatory changes have improved the treatment of infrastructure debt. Bfinance says the current appetite among investors spans a broad risk-return spectrum, from senior infrastructure debt yielding 3-5 percent up to mezzanine real estate debt with yields of up to 13 percent.

The established pattern of firms shifting into low-risk senior private debt strategies as a replacement for investment-grade fixed income is continuing, according to Bfinance. But on top of this, many investors in infrastructure and real estate equity are now moving towards debt at higher risk/return levels.

Corporate debt will always be front and centre for *PDI*, but appetite for real assets debt means it is forcing its way onto the radar.