Real Estate Debt

Covid-19 has proven to be no obstacle for real estate debt

This time last year, the coronavirus crisis was being considered the first major test for the private real estate debt sector since it emerged in earnest in the last property cycle.

If this year's Real Estate Debt 50 ranking is an indicator, then it is a test passed. In aggregate, the 2021 iteration of the ranking garnered $189.3 billion, some 20 percent more than at the last count, which was published just as the pandemic was taking a global grip. Increasingly, institutional capital is seeking the relative safe havens of credit positions as the real estate asset class still demands sustained investment to ensure these investors can meet their liabilities.

As this year's ranking demonstrates, investors' flight to the safer confines of the debt part of the capital stack is matched with their congregation with marquee names, as they are doing with equity-based strategies. Indeed, approximately two-thirds of the money raised by this year's RED 50 was raised by the top five managers alone. In the past year, more than 44 percent of the total capital raised for real estate debt strategies was for second-placed Blackstone's $8 billion Blackstone Real Estate Debt Strategies IV alone.

Blackstone's fund was one of 23 raised in the past 12 months, a marked drop on the 40 vehicles raised in the previous year.

What does that mean for institutional appetite for property credit? When it comes to the traditional, commingled funds measured in the RED 50, the vehicles are getting bigger but are being raised by fewer managers.

Outside of the ranking, there is a growing appetite for debt strategies wrapped in direct separate accounts or joint venture vehicles.

But these two subplots are parts of an overall story about the real estate debt sub-sector growing ever more popular with investors; a story with a long way to go. ■

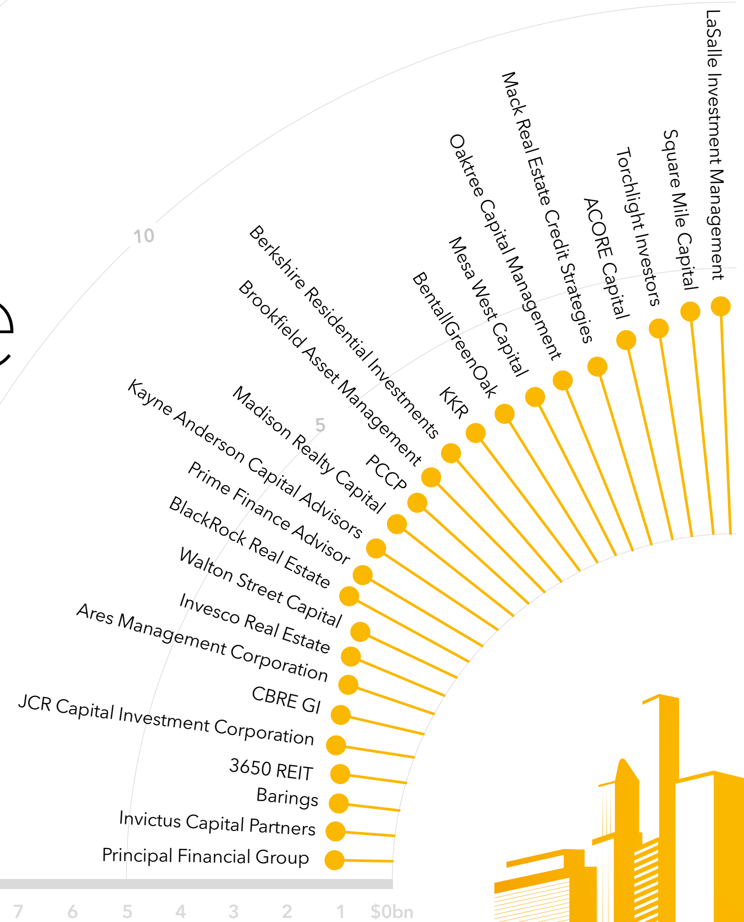
★ New ▲ Up ▼ Down ◁▷ Same

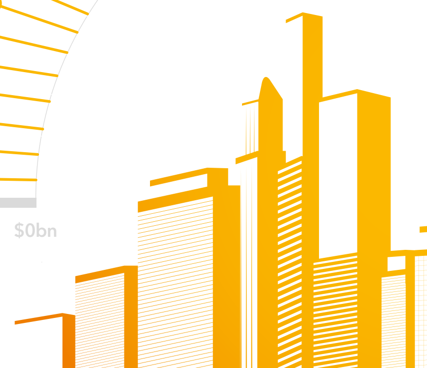
2021 rank	Change since 2020	Manager	Headquarters	Capital raised ($m)
1	◁▷	AXA IM - Alts	Paris	21,618
2	◁▷	Blackstone	New York	13,000
3	★	PAG	Hong Kong	8,685
4	▼	PGIM Real Estate	Madison	8,318
5	▼	Cerberus Capital Management	New York	7,093
6	▼	ICG	London	5,512
7	▲	Bridge Investment Group	Salt Lake City	5,508
8	▼	AllianceBernstein	New York	5,157
9	▼	M&G Investments	London	5,052
10	▼	Goldman Sachs Merchant Banking Division	New York	4,891
11	▲	LaSalle Investment Management	Chicago	4,497
12	▲	Square Mile Capital	New York	4,400
13	▲	Torchlight Investors	New York	4,173
14	▼	ACORE Capital	San Francisco	4,056
15	▼	Mack Real Estate Credit Strategies	New York	3,694
16	▼	Oaktree Capital Management	Los Angeles	3,628
17	▲	DRC Capital	London	3,549
18	▲	Mesa West Capital	Los Angeles	3,514
19	▼	BentallGreenOak	New York	3,451
20	▼	KKR	New York	3,448
21	★	Berkshire Residential Investments	Boston	3,436
22	▼	Brookfield Asset Management	Toronto	3,349
23	▼	PCCP	Los Angeles	3,104
24	▼	CAERUS Debt Investments	Düsseldorf	3,071
25	▲	Madison Realty Capital	New York	2,998
26	▼	Kayne Anderson Capital Advisors	Los Angeles	2,970
27	▼	Prime Finance Advisor	New York	2,798
28	▼	BlackRock Real Estate	New York	2,733
29	▲	MaxCap Investment Management	Melbourne	2,723
30	▲	Brunswick Real Estate Capital	Stockholm	2,644
31	▼	Aberdeen Standard Investments	Edinburgh	2,640
32	▼	Cheyne Capital	London	2,638
33	▼	Qualitas	Melbourne	2,422
34	▲	AgFe	London	2,287
35	▼	Walton Street Capital	Chicago	2,173
36	▲	Invesco Real Estate	Dallas	2,099
37	▲	AEW & Ostrum Asset Management	Paris	1,953
38	▲	Ares Management Corporation	Los Angeles	1,857
39	▼	CBRE GI	Los Angeles	1,764
40	◁▷	SCOR Investment Partners	Paris	1,694
41	▼	JCR Capital Investment Corporation	Denver	1,678
42	▲	Amundi Group	Paris	1,617
43	★	3650 REIT	Miami	1,489
44	★	NN Investment Partners	The Hague	1,482
45	▼	DWS	Frankfurt	1,471
46	▼	Nuveen Real Estate	London	1,458
47	▼	Barings	Charlotte	1,430
48	▲	Invictus Capital Partners	Washington DC	1,398
49	★	Principal Financial Group	Des Moines	1,383
50	▲	La Banque Postale Asset Management	Paris	1,382

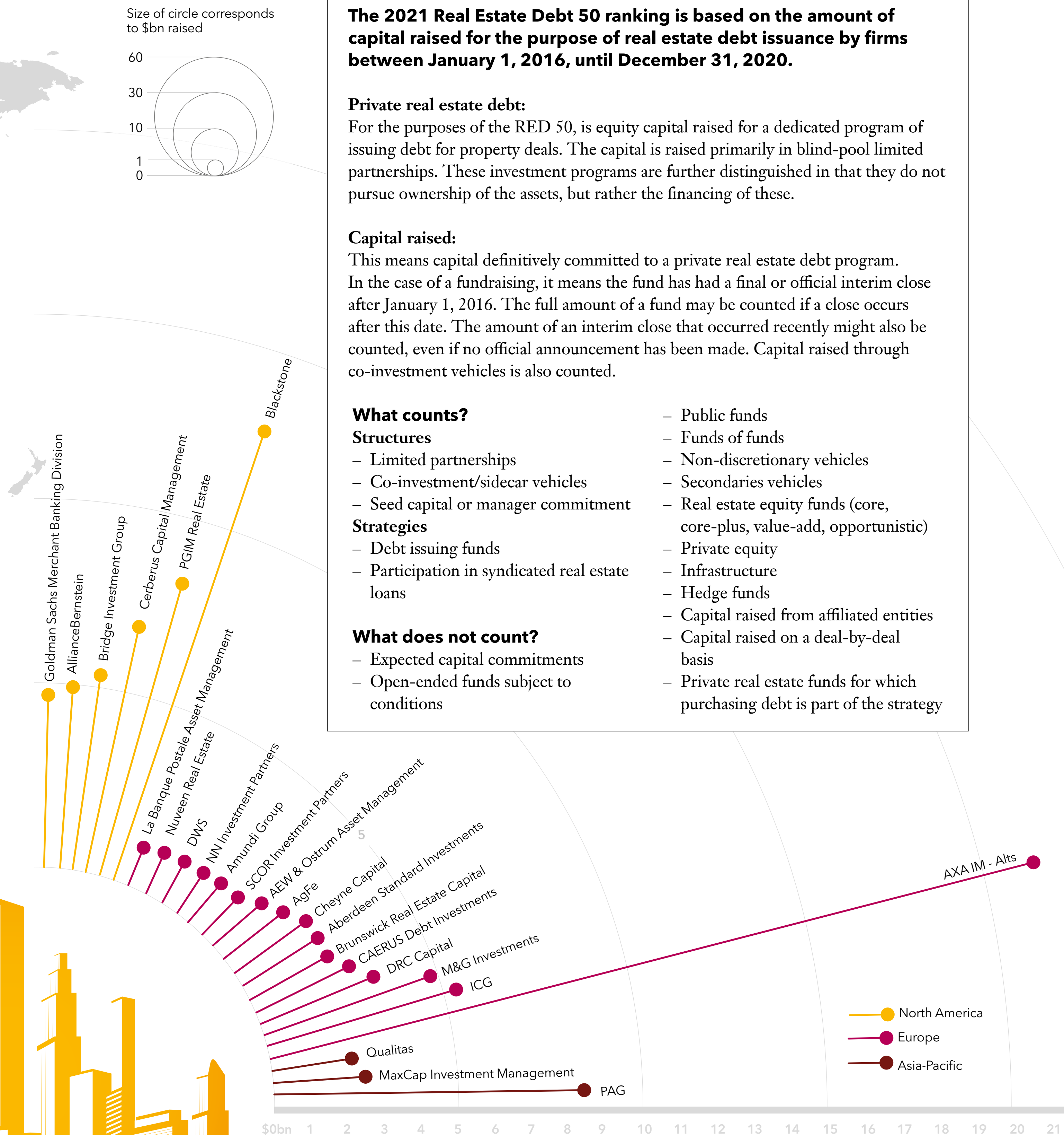
Capital raised by headquarters ($bn)

The Real Estate Debt 50

PERE's latest ranking of the largest real estate debt fund managers







Methodology

The 2021 Real Estate Debt 50 ranking is based on the amount of capital raised for the purpose of real estate debt issuance by firms between January 1, 2016, until December 31, 2020.

Private real estate debt:
For the purposes of the RED 50, is equity capital raised for a dedicated program of issuing debt for property deals. The capital is raised primarily in blind-pool limited partnerships. These investment programs are further distinguished in that they do not pursue ownership of the assets, but rather the financing of these.

Capital raised:
This means capital definitively committed to a private real estate debt program. In the case of a fundraising, it means the fund has had a final or official interim close after January 1, 2016. The full amount of a fund may be counted if a close occurs after this date. The amount of an interim close that occurred recently might also be counted, even if no official announcement has been made. Capital raised through co-investment vehicles is also counted.

What counts?

Structures
- Limited partnerships
- Co-investment/sidecar vehicles
- Seed capital or manager commitment

Strategies
- Debt issuing funds
- Participation in syndicated real estate loans

What does not count?
- Expected capital commitments
- Open-ended funds subject to conditions
- Public funds
- Funds of funds
- Non-discretionary vehicles
- Secondaries vehicles
- Real estate equity funds (core, core-plus, value-add, opportunistic)
- Private equity
- Infrastructure
- Hedge funds
- Capital raised from affiliated entities
- Capital raised on a deal-by-deal basis
- Private real estate funds for which purchasing debt is part of the strategy

No pandemic pullback in debt fundraising

Real estate debt managers drew ample investor support for strategies ranging from senior debt to special situations, despite unprecedented uncertainty in the global macroeconomic environment, reports Arshiya Khullar

The covid-19 outbreak may have paused investment activity for a few months, but last year turned out to be buoyant for real estate debt managers when it came to raising equity for the purpose of issuing loans. *PERE*'s annual ranking of the world's largest real estate debt managers points to an active fundraising year for all types of risk and return strategies, from senior debt to special situations.

Uptick in fundraising

The top 50 firms in the RED 2021 ranking cumulatively raised approximately $189.3 billion via private real estate debt funds and co-investment sidecars over the past five years, almost 20 percent more than the $158 billion, five-year haul of last year's ranking. Fundraising has been hard for certain strategies amid travel restrictions and lockdowns. But a flight to safety for many institutional investors has meant a greater demand for products offering a greater degree of principal protection.

Dominance of US managers

North American firms dominated this year's ranking, accounting for more than 30 of the 50 names. Leading this pack is Blackstone, with $13 billion in approximate capital raised. Two of the new entrants this year – Berkshire Residential Investments in the 21st spot and 3650 REIT in the 43rd position – also focus on lending stateside. Continued lending momentum for US commercial real estate, even as the pandemic raged, was a key contributing factor.

Transactions house Real Capital Analytics noted how most property sectors posted only slight declines in market participation by active lenders in 2020, compared to 2019. The industrial sector, in fact, recorded 20 percent more active lenders at the end of 2020

In a year marred by travel lockdowns and challenges in securing new investor commitments, RED 50 managers were successful in raising 20% more in capital for funds focused on debt issuance than last year

versus a year ago. Lending for the multifamily sector also continued unabated. Berkshire Residential Investments, for example, was able to raise $60 million from New Mexico State Investment Council and $200 million from Tennessee Consolidated Retirement System, among other investors, for Berkshire Multifamily Debt Fund III, a 2020-vintage mezzanine debt fund.

Asia special situations growth

One of the most notable changes in the ranking this year is the debut of Hong Kong-based manager PAG, in part due to its push into special situations-focused fundraising. The firm opens in third spot with $8.7 billion in aggregate capital raised across several pan-Asia and China-focused vehicles, and accompanying sidecars.

For instance, the $1 billion PAG Special Situations Fund III, which closed in November 2019, was followed by PAG Special Situations Fund 3.2. *PERE* understands the top-up vehicle, with a $250 million-$300 million target, was launched specifically to capitalize on growing special situation investments in the wake of the pandemic.

China is one of the firm's target deployment markets for lending. As an executive familiar with PAG's fundraising efforts explains to *PERE*, while the Chinese economy recovered quickly following stringent covid-19 measures in Q1 2020, there are expectations of distress opportunities and default situations arising from the government's recent efforts to restrict debt to developers. As such, the firm is also understood to be in the market with PAG Loan Fund V, targeting $2.5 billion for real estate lending in China as well as South Korea, Australia, New Zealand and India.

Europe's lending opportunity

Unlike Asia, the window for distressed debt deal-making has not opened in Europe yet. Widespread government stimulus and an accommodative monetary policy by central banks helped stabilize markets throughout the crisis and lenders have not been forced to default yet. However, banks pulling back from actively lending for commercial property transactions created demand for senior mortgage lending vehicles in 2020. London-based firm DRC Capital, for example, moved up five spots to 17th position in this year's rankings due to a busy fundraising year.

Dale Lattanzio, managing partner at DRC Capital, tells *PERE* the firm is currently fundraising for three strategies – whole loan, core-plus senior debt, and high-yield – targeting an aggregate two billion, evenly split between pounds and euros. This includes an €800 million target raise – at a €1 billion hard-cap – for the firm's European senior debt fund series.

Lattanzio believes the demand for debt continues to pick up pace even today. "While we are getting towards normalcy with the respect to how we live our lives, the uncertainty about the shape of the economic recovery still exists," he says. "That hasn't brought the banks back to lending in a meaningful way just yet." ■

What investors want from real estate credit

PERE hears from an investor in each major region about what real estate debt means to their respective organization. By Christie Ou

The *PERE* RED 50 has grown by almost 20 percent year-on-year to aggregate at $189.3 billion. Common to most of the institutional investors fueling this growth is a desire for more downside protection and predictable, recurring income during these currently turbulent times. Motivating factors, however, depend on the investor, as does risk tolerance.

PERE spoke with three investors to hear their respective approaches, and the debt strategies they are engaged in.

At South Korean pension fund Public Officials Benefit Association, the investor has evolved its debt investment strategy from commingled funds to more joint ventures and separate accounts. The Korean institution started investing in real estate debt five years ago via commingled funds. Today, debt currently makes up 24 percent of its overall real estate portfolio.

With a goal of having 30 percent of its real estate portfolio invested in debt by 2025, POBA entered a $400 million venture with fellow investor, the US pension California State Teachers' Retirement System. Starting in 2018, that venture has made investments in the US.

Donghun Jang, chief investment officer at POBA, tells *PERE* the investor favors the control factor, deployment speed and exit schedules of its direct lending vehicles. "The investments are usually more short-dated in a joint venture so the cashflow and the turnover is also better and faster," he says.

It is understood the investor is currently in talks with CalSTRS for a potential re-up in addition to the $400 million committed so far. "Going forward, we will focus more on joint ventures and separate accounts when investing in real estate debt," says Jang, though not at the expense of commingled funds.

Real estate debt's role as a substitute for fixed income has been reinforced by the pandemic, according to Jang. "After the pandemic, yield from our fixed income assets has lowered substantially. We are now considering investing in the senior secured real estate debt area," says Jang. However, he also said

Arboretum: the Paris development ticks the ESG box for Allianz

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>
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> **POBA**

private real estate debt can provide a conduit to access distressed opportunities. POBA backed a US commingled fund for that purpose last year. Lending on development, however, is where POBA draws a line.

Trend followers

It should come of little surprise that, for many institutional investors, sectors benefiting from accelerated trends such as digitization are high on the menu.

Roland Fuchs, head of European debt at Allianz Real Estate, tells *PERE* the investor favors resilient sectors such as multifamily and logistics, and is being more cautious with segments hit harder by the pandemic such as hospitality and retail. In December 2020, the firm closed a €195 million refinancing of a logistics and industrial portfolio in the Czech Republic managed by logistics firm CTP.

The firm's main core and core-plus debt fund, PAREC, grew to more than €4 billion in assets by the end of 2020. Not that all its real estate debt exploits are low risk; the investor is happy to back development projects, particularly if the development carries strong ESG elements. For example, the firm participated in the €200 million 'green loan' financing for the development of Arboretum in Paris in July last year, the largest solid-wood office development in Europe.

Nevertheless, the investor's general approach to real estate debt is to use it as a forerunner in markets - a cautious tack – before larger equity plays are determined.

Sheds and beds reign

Prashant Raj, head of US real estate debt at QuadReal Property Group, tells *PERE* his firm's debt strategy mirrors its equity strategy, where there is a focus on industrial, multifamily and various niche property types. "We want to be active lenders in alternatives, which the more traditional financial institutions shy away from," Raj says. The firm issued its first data center development loan last year.

When it comes to financing the development of assets, Dennis Lopez, chief executive at QuadReal, says his firm is more comfortable because it is also an equity investor with operating and development capabilities. "If things do not work out, we can operate them ourselves or finish the development ourselves," he says.

Whether from the US, Europe or Asia, the reasons for increasing exposures to the credit part of the real estate investment equation are increasing, even if, at the induvial institution level, there are nuances in the rationale. ■