Moving up in the real estate world

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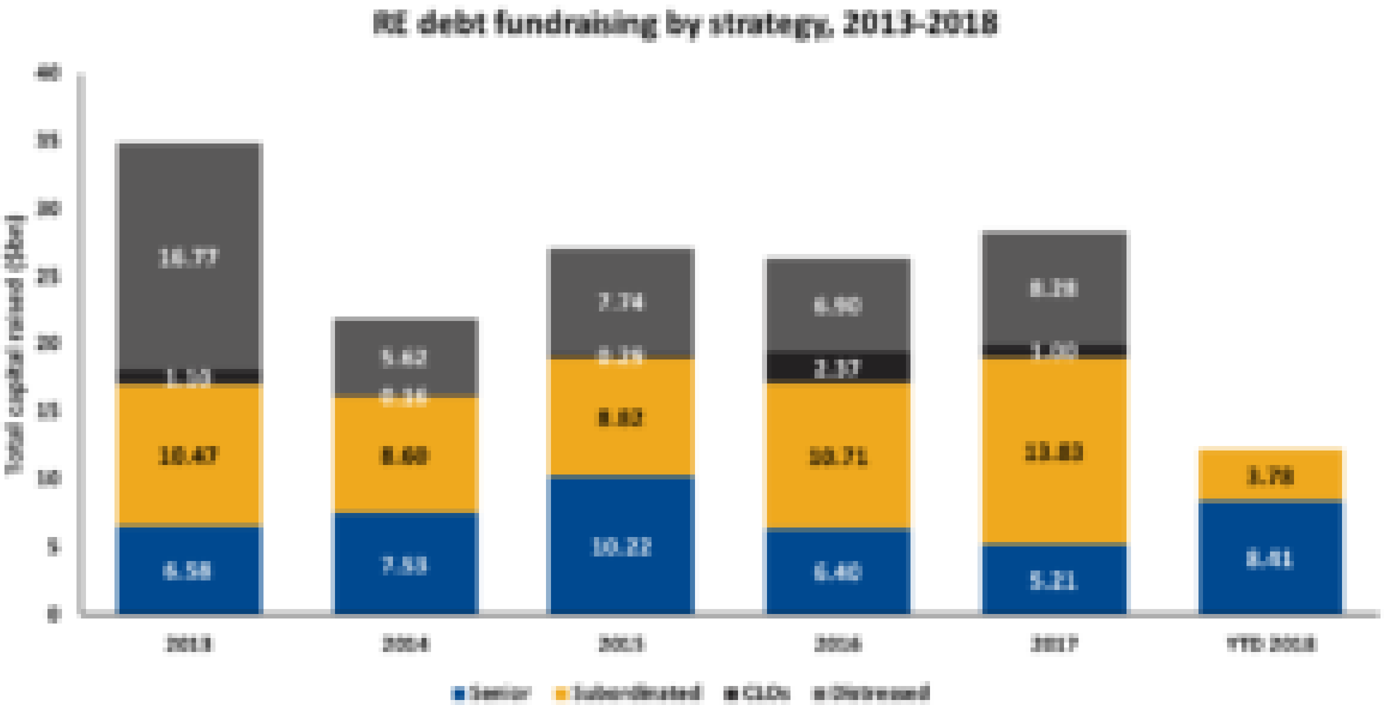

The total raised for senior debt so far in 2018 signifies a jump from previous years.

The growth in real estate debt is just one of the many story lines in the expansion of private credit, and senior debt in that sub-strategy seems to be having its moment in the sun.

Mezzanine and distressed debt have been historically popular, raising substantial amounts of capital over the past five years, particularly compared to senior debt, according to *PDI* data. We are barely past the first quarter of the year and capital targeting the top of the capital structure has locked down $8.41 billion, more funding than in the past five years, save 2014 in which managers collected $10.22 billion.

That senior debt is on the rise is particularly notable as real estate debt managers and advisors have noted that limited partners tend to prefer higher-returning strategies, into which mezzanine and distressed debt fall. Certainly, Goldman Sachs' $6.7 billion senior debt-focused Broad Street Real Estate Credit Partners III will contribute to a much larger total for senior debt.

While the New York-based investment bank remains a marquee name, LPs don't just commit capital based on which manager has the best reputation; it must fit the needs of their portfolio. The monster fund is a testament to the appeal of senior debt as much as it is to Goldman Sachs.

Mezzanine debt stands a chance this year, with funds like the Related HPS Joint Venture II vehicle and the Related CRE Debt Fund both seeking $2 billion. Those two funds alone would give a significant boost to the total amount raised for capital targeting the lower portion of the capital structure.

Contact:Andrew Hedlund
andrew.h@peimedia.com