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Credit managers keep the faith

Fundraising for European real estate debt vehicles dipped in 2024, but managers believe investors will stay interested in property lending during volatile times. By Daniel Cunningham



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Money raised for property debt strategies with an exclusive focus on Europe was down last year, according to *Real Estate Capital Europe* data. Around \$3.4 billion was recorded, compared with \$5.7 billion in 2023, and way below the recent peak of \$12.9 billion in 2021.

Globally, \$36 billion was raised, only marginally below the \$37.3 billion from 2023, albeit significantly down from the \$52.2 billion in 2022. The global capital includes multi-regional funds, of which an element is expected to be deployed in Europe.

Overall, there was a slowdown across private real estate capital markets. Investors allocated \$148 billion overall in 2024, marking the lowest annual total for at least five years. There was something of a rebound in Q1. Across private real estate, \$57.15 billion was raised, up 76 percent on last year's Q1. Of that total, 26 percent was for debt, making it the second most popular strategy after opportunistic. No Europe-only debt funds were recorded, although \$14.9 billion was raised for credit globally, including US manager Blackstone's Real Estate Debt Strategies V, which includes Europe in its purview.

Managers and capital advisory specialists acknowledge the challenging fundraising conditions in place since 2022. The volume of capital raised by the managers in *REC Europe's* Debt Fund 30 ranking fell by 12 percent, in part reflecting the sluggish conditions of recent years.

While manager and advisory sources say conditions improved as 2024 progressed, they say the volatility sparked by US President Donald Trump's trade tariffs has brought fresh challenges to capital formation. However, some argue real estate debt, with its defensive qualities, will be an attractive proposition for investors amid the uncertainty.

Among the managers that raised capital in 2024 was US-headquartered BGO. In January 2024, it announced the final close of its third Europe Secured Lending Fund on €1.38 billion.

Jim Blakemore, managing partner and global head of debt at BGO, based in London, says the fundraising environment was challenging. "It's never easy. There are times when it's easier. But even though there is a lot of interest in real estate debt, it is a smaller area than overall private debt, such as direct lending."

Blakemore says overall, real estate industry issues were a factor. "For part of this fundraise, we had a market where the equity for some investors was not clear. They might have had existing real estate positions, such as in core funds, where they were waiting for money to come back. Capital was not coming back as quickly."

As 2024 progressed, conditions eased a little, he notes. The denominator effect of elevated interest rates on investors' portfolios had eased. "The best lending environment for us is a property market where transactions are happening in real estate private equity. People began to feel more optimistic about real estate in general. Valuations on existing portfolios were coming up a bit and people felt better about life. It led to more investor meetings."

While investors generally expressed appreciation for the outlook for real estate debt, adds Blakemore, individual circumstances dictated whether they had capital to allocate to such strategies, making for a continued challenging fundraising landscape.

David White, head of real estate debt strategies, Europe, at US-headquartered manager LaSalle Investment Management, describes a complex real estate credit fundraising market last year.

"You have to back up a little further to understand last year," says White. "We came out of the covid-19 pandemic with dramatic shifts in liquidity

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across property types, with capital for offices and hospitality having been reduced, for instance. There was also a much more nuanced conversation about real estate between the US, Europe and Asia-Pacific.”

This meant investors’ appetites and ability to allocate to real estate debt varied depending on their experience of the preceding years. “That put a lot of allocations into a holding pattern or created a more conservative outlook. Last year became the point managers realised that they needed to sell assets, so we saw more liquidity, and this gave some investors the confidence to deploy. Many had growing balance sheets elsewhere, so were under pressure to allocate.”

A fresh look

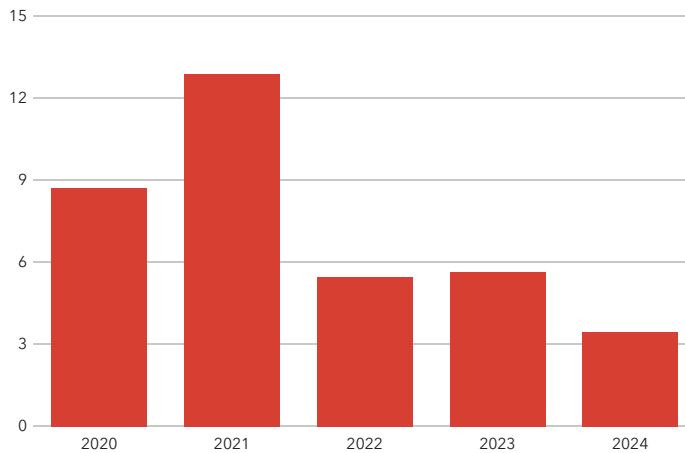
Anne Gales, partner and co-founder of Threadmark, a capital advisory firm with offices in London, Lisbon and New York, believes appetite for debt waned somewhat towards the end of 2024, but has returned.

“My view is debt was very much on the radar in 2024,” she says. “It was seen as a risk-adjusted return investment for a lot of the industry because it could generate high-single digit returns for senior risk in cases. So, in 2023-24, demand was strong, even though general fundraising markets were tough.

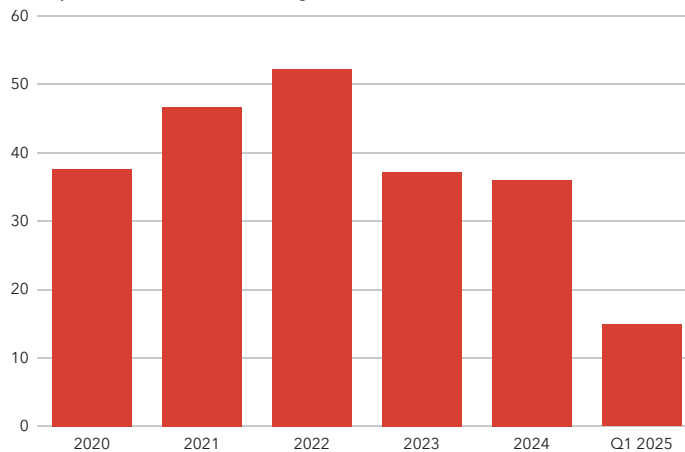
“I had the sense it was petering out to a degree by the end of 2024 because investors started to look again at equity. However, the volatility in the market due to tariffs has brought attention back to debt in a relatively short period. A phrase I have heard, relating to valuations, is ‘real estate will be lower for longer’. So, as a result, some investors will be thinking ‘why not do credit?’”

White agrees that since Trump’s tariffs announcement in April, investors are taking a fresh look at real estate debt strategies. “Last year, there was a conversation around whether it makes sense to go into debt if we are at the bottom of the market. Some believed it would mean missing out on the growth

European private real estate debt fundraising (\$bn)



Global private real estate debt fundraising (\$bn)



Source: Real Estate Capital Europe

story from the recovery. That sense magnified over the course of 2024 and going into 2025.

“There is now more uncertainty about whether to invest in equity or debt. For some, equity makes sense in certain areas. But they need debt to balance the portfolio. So, it’s a more balanced conversation, magnified by the macro-uncertainty. But I need to see equity being raised so I will have borrowers to lend to. It helps a debt strategy when equity is out there buying.”

For managers with intentions to

raise capital, careful consideration of the risk and return profile of lending products in today’s market is essential, argues Andrew Radkiewicz, global head of private debt strategy and investor solutions at US-headquartered manager PGIM Real Estate.

“It’s increasingly important that, to be successful, each manager needs an identity and to differentiate its strategy,” he says.

At the lowest point on the risk-return spectrum, he explains, is senior debt at low loan-to-value ratios. “This is lending to enduring assets at safe



Private credit growth tipped to benefit sector

More investors are looking at a range of debt investments

Private credit strategies, including direct lending to corporates, has been a major growth story in alternative asset classes in the past decade. PGIM Real Estate's Radkiewicz believes this growth will support real estate debt fundraising in Europe.

"Private debt replacing public and bank debt is a theme across global finance," he says.

"There are cyclical factors – a higher return for lower risk in a still reasonably high-interest-rate environment – and those factors have not changed in the past six to 12 months.

"There is a growing demand by a broader group of

investors, particularly out of private credit allocations, into real estate debt given its bottom of cycle high returns and low volatility, so I feel positive about the latter part of this year into 2026."

Radkiewicz believes managers with a background in the broader private credit sector will take the option to raise capital for property lending strategies.

"Investors will come with them from the private credit side. Traditional private credit investors that previously invested with managers that did corporate private debt are looking at asset-backed debt such as real estate with those managers."

LTVs and a lot of insurance companies are active in it, with money being raised from fixed-income allocations and a transfer of assets from public exposures into private to find a premium to corporate bonds. That capital is finding its home in core real estate debt and private placement corporate debt.

"The middle part of the picture is what most would describe as private real estate debt – whole loans of up to 75 percent LTV, against properties with a transitional element to them. It's the type of lending banks can't do anymore. Then, there is high-yield

lending, which I call dynamic capital – development, bridging and stabilisation financing."

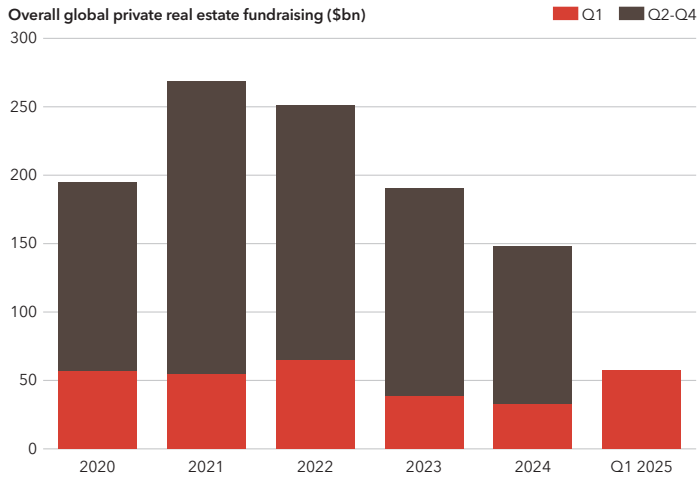
Radkiewicz says the first strategy generates a 5-10 percent uplift to corporate bonds, while the second delivers IRRs in the high single digits, with the third at as much as 10-12 percent on a net basis.

He sees a greater focus for lenders to underwrite the underlying real estate. "There has been a lot of yield chasing across the industry, but it is all about the exit now. There have been permanent valuation declines of 30 percent in

cases, meaning Europe's drop in property value has been steeper than in the global financial crisis. Strategies which lean into creating core are what investors want now or backing enduring core if on the senior side."

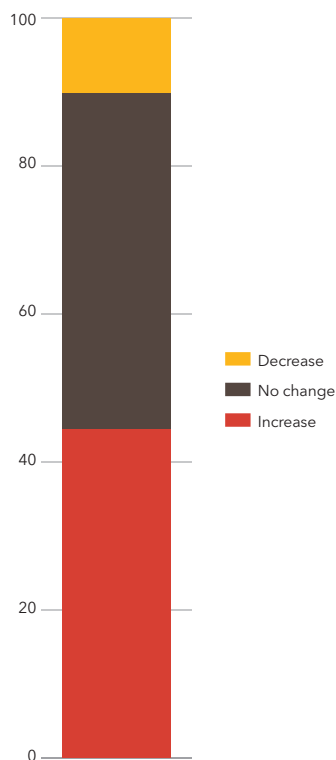
Managers' ability to raise capital will vary according to their performance through the volatility of recent years, Radkiewicz adds. "It's difficult to raise money if you've lost money in your last fund. For some managers with 10, 15 years' experience, highest risk strategies are ironically the ones that have performed best. We have done

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Source: PERE

Expected changes to non-listed real estate debt allocations in Europe over the next two years (weighted by real estate AUM, respondents %)



Source: ANREV/INREV/PREA Investment Intentions Survey 2025

benchmarking work [across the market] and while some 2020 vintage funds have returned double digits, some debt funds have fallen below zero.”

No bonanza

According to Gales, fundraising across real estate strategies will remain challenging, in part due to risk-averse investors increasingly opting to allocate outside the sector, including to corporate private credit, in the wake of performance issues in real estate, particularly in the office and retail sectors in recent years.

“There are bright spots,” she adds. “The real estate secondaries market remains a focus for investors, as is sale-and-leaseback strategies, as they help managers and corporates respectively unlock liquidity. Sectors such as data centres are also in demand. For real estate debt, I think investors with an allocation to it might increase it, but I don’t see a bonanza of people shifting into credit now.”

Jonathan Read, a managing director at capital advisory firm Hodes Weill & Associates in its London office, sees a “willing optimism” about real estate in general from investors. “We noticed a marked difference in investors’ attitudes when we came back from summer last year – it was more pronounced

in the US than elsewhere, but we saw it in Europe, too. When I speak to European investors now, it seems 2023-24 was the nadir of their allocation cycle, following a peak in 2020-22. They are now building back up, so we expect to see more capital looking to find opportunities in real estate overall. As risk appetite grows, we believe there will be more demand for equity than debt.”

At the start of the year, investors made positive noises about medium-term allocations to European real estate debt. In their *Investor Intentions Survey* for 2025, published in January, industry bodies ANREV, INREV and PREA found 44 percent of investor respondents plan to increase their allocations to the strategy in the coming two years.

Radkiewicz acknowledges the current volatility in global markets is leading to investors pausing decision making. “Very few institutional investors need to make decisions right now. Based on our discussions, the back end of this year is looking interesting into 2026. I think investors will get used to conditions not getting back to normal and accepting there will be ongoing challenges.”

BGO’s Blakemore has also observed a pause among investors as they assess the current macroeconomic situation. However, he believes European markets can emerge from the current uncertainty in a strong position. “I see the current macroeconomic situation as a positive for Europe, long term. It forces Germany to make changes and spend more. It will be a tough transition, but for macro-investors, Europe could be interesting. So, I’m bullish.

“On fundraising, a lot comes down to the people, the strategy, the process and the track record. You need to have those things right, and that takes work.”

While views vary as to when and what degree, investors will allocate this year, European real estate debt managers remain adamant the strategy has continued appeal in uncertain times. ■