

## KEYNOTE INTERVIEW

# Opportunities abound in a maturing credit market



*Real estate private credit has region-wide potential in Asia-Pacific, but requires local expertise to succeed, say **Arjun Pandit** and **Nick Jacobson***

Asia-Pacific is a less mature arena for private real estate credit than either the US or Europe but is growing rapidly thanks to a combination of regulatory changes and the growth of the region's property markets. Investors in debt funds are looking for both regional scope and local expertise to exploit these opportunities.

While US and European investors maintain their interest in the sector, more Asian institutional and family office investors are taking part, say Arjun Pandit, managing director, private funds at CapitaLand Investment (CLI) and Nick Jacobson, managing director of Australian private credit investment manager Wingate. CLI announced the

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acquisition of Wingate's property and corporate credit business in December 2024.

## **Q** How is the private real estate debt market in Asia-Pacific evolving?

**Arjun Pandit:** A decade and a half back, Asian private credit was really the domain of investment banks, and specifically US investment banks. After the global financial crisis, the market shifted and more local players emerged. Over the past four or five years, greater

transparency in Asian real estate markets has led to a greater allocation from global pension funds, insurance companies and sovereign funds, some of which are from Asia.

**Nick Jacobson:** The Australian commercial real estate private credit space was historically dominated by the banks. However, regulatory intervention to tackle concentration risk in the banking sector and the impact of Basel III has opened the CRE credit market over the past decade.

The CRE private credit market was dominated by investment banks but we now see more specialist platforms and more involvement by investment,

asset and global fund managers, such as CLI.

### **Q Where in particular do you see opportunities emerging?**

**AP:** Asia-Pacific private credit is quite a misunderstood product. Clearly the market is less mature than the US and Europe; however, private credit has been quite a large focus for investors here for more than a decade. Moreover, because Asia is not one uniform continent, there is a perception that it is not really a large market.

The reality is that there are many opportunities in real estate private credit in the region: in Korea, for example, there is a market disruption in the capital markets, which is presenting an opportunity not typically available to foreign credit players. There is India, which is a growth market and where there are positive regulatory changes. Japan is also a market nobody really thought about from a private credit perspective over the past decade, but it is back in play because there has been a big increase in M&A activity from private equity and demand for capital for value-add strategies.

We expect pretty impressive growth in Asia-Pacific private credit compared with both the US and Europe in the coming decade, with a double-digit compound annual growth rate. However, it is important to note that within that regional story, localization will be an important factor. Lenders need to understand the language, the borrowers and the real estate market.

CLI's strong network across Asia-Pacific and local expertise are advantageous to our growth in private credit. This is also why the acquisition of Wingate is so important for our ambitions in Australia. Wingate is one of the largest private credit investment managers in Australia. Wingate's private credit capabilities complement CLI's own private funds platform and will enable us to collaborate to create greater value for our capital partners.

**NJ:** In Australia, the pullback of the banks continues, although CRE lending is still bank-heavy and only around 15-16 percent of the market is private. However, it is an attractive opportunity to invest in a mature, lender-friendly environment, and we expect the private CRE credit market to double in size over the next five years.

### **Q How is the regulatory environment in Asia-Pacific creating opportunities for private lenders?**

**AP:** Regulations are ever-evolving. On a broader perspective for private credit globally, is this a regulatory arbitrage, or are we looking at a sustainable business practice based on sensible regulations? When you look at Asia-Pacific overall, the markets have always been open to private credit, but there are a few nuances.

If you are a lender, it depends on who you are lending to – whether it is institutional or more regulated retail businesses. The other element is the requirement for money lending license and banking regulations. There are nuances in each country.

However, if you are an asset management business focused on institutional lending and comply with capital raising and deployment regulations, regulators are actually supportive of institutional capital coming into private credit markets. Our dialog with regulators, and also with investors, has given us strong conviction that private credit has great support from the regulatory environment. Essentially, the backbone of the private credit industry is to live symbiotically with the banking sector.

**NJ:** As the Australian CRE private credit market becomes more institutionalized and a larger proportion of the total credit market, the expectation is that there will be increased regulatory oversight. However, this is likely to focus on those private credit providers active in the retail investor and consumer lending segments. Furthermore,

at Wingate, we have been in the private credit investment management business for more than 20 years and have robust governance, compliance and risk management functions.

### **Q Australia in particular has seen significant regulatory and market changes around lending, how do you view this market?**

**NJ:** There are two parts to this. Firstly, the Australian Prudential Regulation Authority has been working to reduce CRE exposures in the banking sector since the middle of the last decade, which has led to construction lending becoming a particular challenge for the banks. This has thrown up a significant opportunity for private credit. The second element is the Basel III frameworks that ensure banks have enough capital to meet their obligations and absorb unexpected losses, which have led to greater risk weightings for real estate lending and in turn has created space in the CRE sector.

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**ARJUN PANDIT**

## Q How can real estate private credit support ESG initiatives?

**AP:** Private credit can support green developments and conversions to make assets more sustainable, both environmentally and socially – crucial elements that are integrated into CLI's platform. Sustainability-linked loans can be issued but they are not always the best solution for promoting sustainability initiatives, especially given the heterogeneous nature of the Asia-Pacific market.

**NJ:** As a jurisdiction, Australia is highly focused on ESG matters, and so it has to underpin your operating ethos if you're going to participate and succeed in private credit here. Sustainability is built into the building codes so, to a certain extent, all lending ought to be supporting sustainability initiatives.



## Q What range of financing solutions can private credit offer Asia-Pacific real estate owners and developers?

**AJ:** Real estate private credit can work across a very broad range of markets, borrowers and products, depending very much on the risk and return objectives of debt funds. Construction lending is an opportunity, not least because Asia has so many growth markets where significant real estate stock must be developed.

Besides this, while private credit might not necessarily be lower cost than bank lending, it can offer longer duration lending, as that ties in with the longer exposures some of our

investors require. There is also strong demand for capex finance for asset enhancement, where there is volatility in cashflows. Very often our borrowers would refinance with the banks when they have fulfilled their asset management strategies.

## Q Is there much demand for mezzanine lending and other structured finance?

**AP:** There is always demand for mezzanine lending, but unlike the US and Europe, most borrowers in Asia are quite conservative and banks are not always keen to work with mezzanine lenders, so the market is thin. We typically bridge this using stretched senior lending or whole loans. We are able to

then divide the capital structures internally, based on the risk profile for our investors.

**NJ:** The mezzanine market in Australia has downsized significantly as the appetite for stretch senior/unitranche loans has grown. While we have inter-creditor arrangements with the four major Australian banks, we have noticed that borrowers increasingly prefer a single senior loan rather than a more complicated mezzanine and senior structure.

## Q Who are the capital sources for Asia-Pacific real estate private credit, and how is the investor base changing?

**NJ:** Australia has become a familiar destination for international real estate capital, and that increasingly applies to CRE credit. As well as familiarity, Australia offers transparency, comfort with the legal system, the stability of the market and the growth of the market. We have seen investors from Asian markets including Singapore, Hong Kong, Korea and Japan take an interest.

**AP:** We see the larger institutional investors in Asia taking more interest in private credit, especially where they can invest in a theme and a platform, rather than a trade – as they have large pools of capital to invest. We also see growing interest from Asian family offices and high-net-worth individuals, with Singapore and Hong Kong being two centers for such investors.

US and European investors remain interested in Asia-Pacific credit. Certainly, the US offers a compelling opportunity to US investors at the moment, and therefore they are focused on their home base, but growth markets such as India still attract interest. There are also European investors with exposure to Asia-Pacific real estate credit, and we expect to see more activity from them towards the end of the year. ■