

Professional investors only

When lending starts to look like equity



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Private credit has rarely attracted as much attention as it does today, with increasing scrutiny around how risk is building across the asset class. Recent developments – including the expansion of private debt into areas traditionally served by banks and public markets – have raised questions around leverage, opacity and interconnectedness. For investors, the focus has shifted from the growth of private credit itself to where risk is effectively accumulating.

Within that broader landscape, real estate debt operates under a distinct framework. Anchored in tangible assets and structured with contractual protections, it differs fundamentally from corporate lending models that rely more heavily on cash flow generation and refinancing dynamics. In this respect, real estate debt behaves more like asset-based finance than traditional corporate credit. At the most defensive end of the spectrum, senior real estate lending has historically been characterised by conservative leverage, priority in the capital structure and income visibility derived from lease-based cash flows. Even through recent repricing cycles, this positioning has provided a degree of downside protection through lower entry points and strengthened underwriting assumptions.

That positioning remains relevant. However, the market in which it operates has evolved.

The defining feature of today's real estate debt market is no longer capital availability, but the discipline with which that capital is deployed and underwritten. In the most liquid segments, senior lending on stabilised assets has become intensely competitive. Pricing has converged, structures are standardised, and execution is increasingly commoditised. These transactions still meet capital preservation objectives, but they offer limited differentiation and behave increasingly like fixed income substitutes.

As capital continues to flow into these segments, the search for returns naturally shifts toward areas where pricing is less uniform and underwriting is less mechanical. This shift is most visible in transactions where value creation depends on the execution of a forward-looking business plan rather than on in place income. In today's environment – marked by volatility, uncertain exit liquidity and more complex asset strategies – underwriting that execution has become materially more demanding.

Some of this complexity can still be structured and contained within a senior framework. In other cases, the reliance on assumptions that

are difficult to validate pushes the risk profile closer to equity than credit. The challenge for lenders is distinguishing between complexity that can be underwritten with conviction and complexity that simply masks unpriced risk.

This is where a distinct segment of the senior market continues to offer genuine value: transactions that combine operational execution with robust structural protections. This is precisely where Generali Real Estate Debt operates, having developed its approach early on to focus on senior exposure to situations requiring operational underwriting and structured downside protection. These are situations where the underwriting hinges on understanding business plan feasibility, asset level levers and downside resilience – with cautious leverage on the asset – not on extrapolating stabilised cash flows. The yield premium does not come from taking quasi equity exposure (the kind associated with very high leverage, diluted security packages or the use of back leverage); it comes from operating in a part of the market that remains niche, less standardised and less efficiently priced.

In these transactions, senior lenders capable of evaluating execution risk rigorously can capture returns that remain misaligned with their true risk profile. The defensiveness of the senior position is preserved, while the complexity premium compensates for the analytical and structuring intensity required. This segment remains underpenetrated precisely because it demands capabilities that are not universally available: the ability to assess operational risk with precision, structure protections that genuinely insulate downside, and maintain discipline where assumptions are harder to validate.

The more fundamental question is not where value appears today, but how durable that value remains once capital begins to converge on it. Complexity itself can become commoditised once enough capital pursues the same premium. Competitive advantage therefore lies in operating ahead of that convergence – in segments where complexity is real, not manufactured, and where senior structures continue to deliver asymmetric protection despite higher yields.

For lenders, the edge is no longer in product labels, but in the ability to underwrite and structure complexity before the market standardises it.



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