The Rise of Private Debt Real Estate Funds: A Performance and Risk Analysis

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Overview

The private credit market has grown to roughly $1.9 trillion globally and is forecast to reach $3 trillion by 2028; real estate accounts for an estimated 12 to 14 percent of this total. Private debt real estate (PDRE) funds have become an important vehicle for institutional capital flowing into commercial real estate lending, yet no academic study has formally evaluated their performance as an asset class. We provide that first look. Using fund-level cash flows from the MSCI Private Capital Universe and fund-level coverage from Preqin, we measure how PDRE funds have performed on a raw and risk-adjusted basis through the 2019 vintage. PDRE funds have delivered strong raw returns and generated positive alpha against public debt benchmarks. Once broader equity market risks are added to the benchmark portfolio, returns are commensurate with the risks taken.

Research Questions

- How large is the private debt real estate market, and how fast has it grown?
- How have PDRE funds performed, on a raw-return basis and risk-adjusted basis?

Data and Approach

Market sizing draws on Preqin data, covering 2,170 PDRE funds with vintage years from 1976 through 2023 and approximately $481 billion of committed capital. Performance analysis draws on the MSCI Private Capital Universe, which provides quarterly cash flows reported directly by limited partners. We require sufficient post-inception data for each fund, so the performance sample ends with 2019 vintages and 171 North American PDRE funds.

We apply three measures of performance, each progressively more demanding:

- Raw returns: pooled internal rates of return (IRRs) and equity multiples.
- Public-market comparisons: Direct Alpha and the Public Market Equivalent (PME) versus three public debt benchmarks (CMBS, leveraged loans, mortgage REITs). These measure whether PDRE returns exceed what investors could have earned in liquid public debt over the same cash flow timing.
- Risk-adjusted profit (RAP, Erel et al. 2025): a portfolio of public assets is built to mimic each fund's evolving risk exposures. We run RAP under three replicating-portfolio designs that progressively widen the risk lens: real estate and broader public debt; debt plus equity REITs; and debt plus equity REITs plus broad public equities.

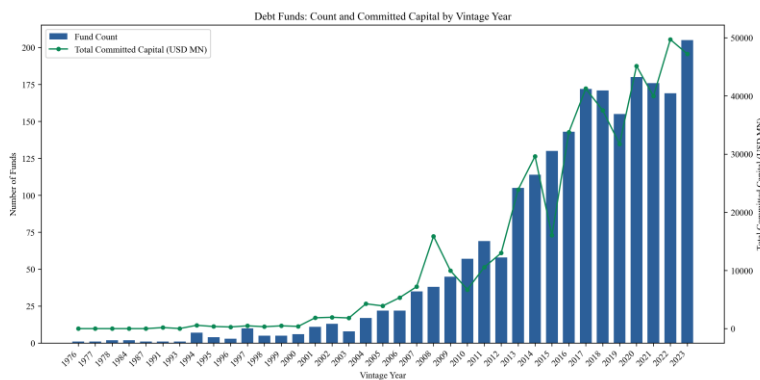

Figure 1. PDRE fund launches (bars, left axis) and committed capital, USD millions (line, right axis), by vintage year, 1976 to 2023. Source: Preqin.

Key Findings

1. The market has grown rapidly. Committed capital across the 2009 to 2013 vintages totaled $64.1 billion. That figure rose to $158.2 billion across 2014 to 2018 and to $213.8 billion across 2019 to 2023, more than a three-fold increase over the period.
2. Raw returns are healthy. The pooled IRR is 8.34 percent, with a median fund-level IRR of 8.37 percent.
3. PDRE funds clear the public-debt bar. Pooled Direct Alphas are positive across all three debt benchmarks: 2.92 percent against CMBS, 2.00 percent against leveraged loans, and 1.72 percent against mortgage REITs. Pooled PMEs range from 1.07 to 1.11. Between 66 and 75 percent of individual funds clear the PME = 1 break-even threshold.
4. These positive results stand in contrast to the private equity real estate (PERE) fund results. Consistent with the literature, we document weak risk-adjusted and raw average performance for PERE funds over our sample period
5. Risk-adjusted results decline as the risk lens widens. RAP alphas are 3.3 to 3.9 percent against mortgage REITs and broader public debt benchmarks and 2.4 to 2.9 percent once equity REITs are added to the replicating portfolio. However, once a broad index of public equities is added to the replicating portfolio, RAP alphas are approximately zero. A zero alpha at the broadest replicating portfolio means PDRE funds delivered returns commensurate with the risks taken.
6. Heterogeneity within PDRE is substantial. By debt sub-strategy, pooled IRRs are 9.56 percent for funds classified by MSCI as generalist funds, 9.41 percent for distressed funds, 7.57 percent for senior funds, and 4.98 percent for mezzanine funds. Mezzanine is the only sub-type with alphas at or below zero across debt benchmarks; the positive performance of the asset class is driven by generalist and senior strategies.

Implications for Practice

- PDRE has matured into an asset class large enough and old enough to evaluate on its own terms.
- Benchmark choice matters materially for manager evaluation: debt-only benchmarks make PDRE look stronger, while broader multi-asset benchmarks show that much of the return reflects compensation for wider systematic risk.
- Manager selection within PDRE should be subtype-aware, because performance is not uniform across strategies and mezzanine results are materially weaker on a benchmark-adjusted basis.
- For investors seeking exposure to real estate lending, PDRE funds appear to have offered a competitive net-of-fee alternative to comparable public debt exposures over the sample period.