Pensions Up Debt-Strategy Pledges

Public pension funds in the first quarter pledged more capital to commercial real estate vehicles investing in debt compared with commitments made in the previous three months.

U.S. pensions committed $1.3 billion to debt-focused funds and separate accounts from January to March, according to **Ferguson Partners.** While that's down 34% from just under $2 billion in the first quarter of 2022, it's up 23% from the $1.1 billion of pledges between October and December of last year. The firm plans to release its findings next week.

Pledges to debt vehicles represented 12% of total commitments to commercial real estate-focused funds and separate accounts in the first quarter, up from 8% for full-year 2022. The annual share for debt-focused vehicles peaked at 20% in 2020.

Ferguson director **Scott McIntosh** said the uptick comes as private lenders look to capitalize on the pullback by banks and life companies.

"The increase we've seen in [the first quarter] is reflective of private real estate credit vehicles stepping in to fill some of that credit void," he said, adding that how long pensions continue to back debt vehicles will be tied in part to how long credit markets remain mostly frozen.

"There's a pessimistic window for transactions and uncertainty around capital markets," he added. So "there's an opportunistic window on the credit side."

Under Ferguson's methodology, funds and separate accounts that originate or acquire commercial mortgages are classified as debt vehicles. Distressed-debt vehicles employing "loan-to-own" strategies are classified as opportunistic.

As **reported** by sister publication **Real Estate Alert,** overall commitments by public pensions to real estate vehicles totaled $10.9 billion in the first quarter, down 38% from the record $17.6 billion pledged in the first quarter of last year. It was also the lowest first-quarter total since 2020.

The 306 pension systems tracked by Chicago-based Ferguson have some $5 trillion under management, believed to be the vast majority of assets held by U.S. public pensions. ❖

Pension Debt Pledges ($Bil.)

Year	Value
2016	6.6
2017	5.5
2018	7.1
2019	3.7
2020	7.3
2021	7.5
2022	5.1
Q1-23	1.3

Source: Ferguson Partners