FRANKLIN TEMPLETON

Real Estate Debt: A complement to infrastructure

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Investors are seeking diversification beyond corporate exposures

As corporate valuations reach record highs, investors are increasingly turning to **alternative income-oriented private asset opportunities**.

Real estate debt and infrastructure stand out as two compelling candidates – each backed by physical assets that provide inherent diversification from traditional corporate exposures. While both offer attractive risk-adjusted returns, their investment outcomes are differentiated yet highly complementary.

Real estate debt and infrastructure – how they differ yet fit together

	Real Estate Debt	Infrastructure
Underlying Assets	Backed by real estate such as multifamily residential complexes, retail centres or industrial facilities	Physical infrastructure providing essential services with reduced demand cyclicality
Capital Structure	Typically, senior secured with equity cushion providing insulation from real estate valuation volatility	Equity, typically with modest leverage
Investment Horizon	Typically, 2–3 years with 1–2 one-year extensions	Typically, 10 years or more
Yield	Higher proportion of return from income	Lower proportion of return from income
Inflation Hedge	Asset values and rents historically have risen with inflation	Contractual cash flows often with regulated pricing and inflation ratchets

Diversification benefits of real estate debt and infrastructure

US real estate debt and infrastructure offer meaningful diversification benefits, having shown **low-to-negative correlation with public markets**. Their inclusion is increasingly compelling given concerns over elevated public equity valuations and the resulting pressure on future return expectations.

Ten Years Rolling Q2 2016–Q1 2026

	US Real Estate Debt	Global Infrastructure	US Direct Lending	US Equities	US Investment Grade
US Real Estate Debt	1.00				
Global Infrastructure	0.22	1.00			
US Direct Lending	0.12	0.65	1.00		
US Equities	0.03	0.65	0.71	1.00	
US Investment Grade	-0.20	0.24	-0.02	0.33	1.00

Source: Franklin Templeton Financial Markets Team as of 31/03/2026. US Real Estate Debt: Giliberto-Levy High Yield Commercial Real Estate Index, Global Infrastructure: Preqin Global Private Infrastructure Index, US Direct Lending: Cliffwater Direct Lending Index, US equities: S&P 500 Index, US Investment Grade: Bloomberg US Aggregate Bond Index.

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Combining real estate debt and infrastructure

Individually, infrastructure and real estate debt may provide attractive risk-adjusted returns, but a combination has the potential to compound the benefit.

Ten Years Q2 2016–Q1 2026

	US Real Estate Debt	Global Infrastructure	50/50 Portfolio
Annualised Returns	**8.7%**	**10.1%**	**9.5%**
Volatility	**1.3%**	**4.8%**	**2.6%**
Sharpe Ratio	**4.92**	**1.63**	**2.73**

Source: Franklin Templeton Financial Markets Team as of 31/03/2026. US Real Estate Debt: Giliberto-Levy High Yield Commercial Real Estate Index, Global Infrastructure: Preqin Global Private Infrastructure Index. The 50/50 portfolio blend and the unmanaged indexes do not reflect the impact of fees and expenses associated with managed products.

Why real estate debt matters now

Traditional lenders pulling back

With traditional lenders reducing their activity, strong private lenders are stepping in to fill a crucial gap, making well-capitalized firms essential.

Wave of maturities ahead

A significant wave of maturities ahead in the real estate market further enhances the demand for flexible private capital to bridge financing needs.

Attractive entry point

Multifamily property values have declined by ~30%[1] from their Q4 2021 peak, with all major markets impacted.

1. Source: Green Street, 31/03/2026.

Franklin Templeton Private Markets

Comprehensive $294bn[2] AUM platform access	**Proven expertise through Benefit Street Partners (BSP) with 20+ years credit investing**	**Integrated research and risk management across private markets**

Private Debt Investor AWARDS 2025
Real Estate Debt Manager of the Year: Americas

PERE Credit AWARDS 2025
Mid-Market Lender of the Year ($50m-$100m)

2. Source: Franklin Templeton. Month-end assets under management as of 30/06/2026. Alternative assets may include liquid alternatives and other unconstrained strategies that are not defined as private market securities. AUM category classifications are subject to change without any notice.
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