Bloomberg

Blackstone Spies $30 Trillion Opportunity in Private Credit

- Asset-based finance to help spur growth from under $2 trillion
- Energy transition, data centers, real estate are the focus

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Blackstone Inc. expects the private credit market to balloon to $30 trillion in size, fueled by lending for infrastructure projects and greater participation from pension funds.

"The opportunity set to finance the real economy, whether that's credit cards, whether that's equipment, whether that's data centers, aircraft — that is roughly a $30 trillion opportunity," said Rob Horn, global head of infrastructure and asset-based credit at the recently-formed Blackstone Credit and Insurance, or BXCI, unit.

Private debt has expanded rapidly over the last decade to about $1.7 trillion, mostly by funding private equity. "That is really just a sliver of the overall opportunity set," said Horn in the latest Credit Edge podcast from Bloomberg Intelligence.

Blackstone, which earlier this year predicted the market would hit $25 trillion in size, is seeing a shift in private borrower type to higher-quality companies. On the investor side, more cash is flowing out of public markets, where "liquid benchmarks have deteriorated," according to Horn.

"Not only can we get hard-asset collateral — which differs from what they get in the public market — but we also get a premium return," said Horn.

Insurance companies, which were early investors in asset-based credit, still only have about 3% exposure, Horn said. "We continue to see that accelerating," he added.

Pension and sovereign wealth funds are also starting to take note of the better returns in private debt, which Horn expects to hit the mainstream with the addition of asset-based finance.

“From where it is today — whether it’s 0% of your portfolio or 3% — there’s certainly room to increase that toward 10%, 20%, depending on what your liability profile is,” said Horn.

Banks currently account for as much as 90% of the asset-based credit market because they finance the real economy, but Horn expects private lenders to take share. Blackstone is looking to team up with banks, as it did earlier this year with Barclays Plc, “in different areas that may be less core to their franchise.”

“The capital needs are just very, very large,” Horn added. “And what we’re seeing is that the banks are really focused on areas that are core to them.”

Blackstone is focused on the energy transition and renewables — areas where it plans to invest $100 billion — as well as digital infrastructure and residential real estate as the next big private credit growth sectors. Within asset-based credit, Blackstone finances credit cards, home improvement loans, single-family rentals and equipment.

The New York-based money manager also expects $1 trillion to be spent on data centers over the next five years and sees growth and stability in the fact that many are contracted for up to 25 years with major technology companies.

Apollo Global Management Inc., one of the biggest private credit firms, has predicted similar explosive growth for private credit. It has pegged the potential market at $40 trillion as the market expands beyond its roots to areas like auto loans and infrastructure debt.

As for the growing risks in private credit, Horn says there are still advantages to private credit over public markets, which he says can be more exposed to funding and dilution challenges, as well as price swings.

“We have significant credit capital within Blackstone credit and insurance to fund these assets, and provide great stability of capital over the longer term,” said Horn.

Blackstone Eyes $30 Trillion Private Credit Bonanza

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Blackstone Inc. expects private credit to balloon to $30 trillion in size, fueled by the energy transition, housing and data center lending.

“We’re really expanding the opportunity set from quite a narrow part of the market to really a mainstream part,” said Rob Horn, global head of infrastructure and asset-based credit at Blackstone.

“Not only can we get hard-asset collateral — which differs from what they get in the public market — but we also get a premium return,” Horn tells Bloomberg News’ James Crombie and Bloomberg Intelligence senior credit analyst Tolu Alamutu in the latest Credit Edge podcast.

Horn and Alamutu also discuss the outlook for residential real estate. “It’s still going to be a decent year, despite the fact that we have this troubling geopolitical risk backdrop,” says Alamutu.

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