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Expanding funds manager HMC Capital, led by former UBS banker David Di Pilla, has got to a flying start as it moves to set up a $5bn private credit business by snapping up specialist commercial real estate lender and funds house Payton Capital.

HMC is paying an upfront price of $127.5m in cash and scrip for the Payton operation, and is undertaking a $100m underwritten institutional placement and a $30m security purchase plan.

The move sets up the alternative manager to surge past its funds under management targets, and it now operates in areas ranging from shopping centres, healthcare and last mile logistics to private equity, clean energy and digital infrastructure.

"We see the growth opportunity in this sector as too big to ignore with private credit asset managers playing an increasingly larger role in Australia's $1.2 trillion credit market," Mr Di Pilla said.

"The acquisition of Payton provides HMC with an attractive entry into the private credit sector via a highly profitable and scalable platform. This will enable HMC to take advantage of attractive industry fundamentals and investor appetite for commercial real estate private credit."

He said non-bank commercial real estate was experiencing strong growth, which was backed by the growing role of private credit asset managers in Australia and the significant need for new housing supply to address the nation's strong population growth and lack of affordable housing.

The Payton business is highly profitable and already has $1.5bn of assets under management. It is poised for further growth as the big four banks pull back from commercial real estate.

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platform. He previously led Macquarie's US principal finance business where he was responsible for more than $14bn of private credit deals, and will help the company grow its capacity in the area.

HMC wants to grow its private credit asset management business over coming years to span real estate, corporate, mezzanine and infrastructure loans. It sees buying Payton as the first step in this strategy with more areas to be added.

HMC called out high risk-free rates plus strong credit risk premiums as creating a “golden period” for private credit. It said the addressable market opportunity is expected to double over the next five years to about $350bn in Australia alone.

The company noted that the domestic and offshore super and pension funds and insurance companies that it already deals with are allocating more capital to private credit in Australia and globally.

Commercial real estate is also seen as “highly favourable” by the company as there is less competition from traditional capital sources such as big banks due to Basel III rules, along with structural demand for credit to address Australia’s chronic undersupply of residential housing stock.

The specialist sector has accommodated smaller players but is expected to consolidate to top operators with the ability to scale as the industry grows from $76bn in 2023 to an expected $182bn by 2028.

Managers can charge high funds management fees and there is a high turnover of loans.

HMC sees a chance to bolster Payton’s investment process via its own broader real estate equity ownership and operational lens. It wants to get Payton into areas like retail, healthcare and last mile logistics where it is active.

The company eventually wants to move into larger and more complex areas of private credit including corporate loans, private equity and leveraged buyouts, infrastructure and renewable and structured lending.

In a market update this month, HMC flagged that due to continued outperformance of its HMC Capital Partners Fund I – which has a stake in embattled developer

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per cent accretive to the February guidance and 7 per cent accretive to the upgraded May guidance. It kept distribution per share guidance for this financial year at 12c per share.

The placement was being handled by Goldman Sachs and UBS.

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Ben Wilmot has been The Australian's commercial property editor since 2013. He was previously a property journalist with the Australian Financial Review.... [Read more]