

Middle-market infrastructure offers resilient opportunities

We recently spoke with **David Son**, head of infrastructure client solutions at **CBRE Investment Management**, about investing in the middle market; why open-ended infrastructure funds might be a better fit for a long-lived asset; and what impact the current geopolitical risks are having on the asset class. The following is an excerpt of that conversation.

I understand that CBRE is active in the middle market. Why is that an attractive slice of the infrastructure universe?

The mid-market is a very compelling and deep opportunity set driven by higher inefficiencies and lower competition. When we invest, we want to take a controlling position with equity commitments between \$100 million and \$400 million. That slice of the market is less competitive with more transactions than you'll find in the more traditional large-cap strategies. It's also a more diverse universe, and we are able to choose sectors that are growing rapidly. These are primarily sectors with strong natural growth, such as digital and energy-transition sectors.

In addition to the obvious opportunities, such as data centers, we focus on other interesting sectors, such as the electrification of transportation and the need for electric vehicle charging stations. We are also looking at battery storage and distributed power opportunities that support the energy transition. In addition, we are very interested in the decarbonization of the built environment. Our real estate capabilities and the fact that we're one of the largest owners of commercial properties in the world, all with major heating and cooling needs, makes CBRE particularly well suited to make an impact in that area.

These are all sectors that have natural strong growth trends. The large-cap space often leans more into the more mature industries, and you've got a lot more competition. We're starting in a place that already is less competitive and more attractive from a risk-adjusted opportunity.

Is leaning into the new economy and smaller assets changing the risk profile of infrastructure? Is it riskier?

We still define infrastructure in the classical sense: physical hard assets delivering essential services under long-term contracts or a regulatory framework that delivers long-term cash flows that are largely inflation-linked. Given that definition, we think there's a middle ground between being small and risky and being large and safe. When we invest \$100 million into an acquisition of existing assets, we underwrite the downside risk on that initial \$100 million to a core downside profile. So, if you never grow this business, you're going to get your money back on the existing

contracts in place with a modest return. However, when we invest, we are buying with a thoughtful growth plan in mind.

And this is where the big difference is. We're not going to speculate on that next leg of growth. We need to see contracted revenue from customers. There is some scaling risk, but we have certain embedded advantages because of the CBRE platform advantage, where we can de-risk the growth and the scaling. For example, we have a Nordic business called Geonova, which provides heating and cooling services via ground source heat pumps. The customer acquisition part of it is de-risked because of the breadth and depth of the CBRE platform.

Same idea if you're rolling out rooftop solar. We are one of the largest owners of commercial rooftops globally. There are opportunities to de-risk customer acquisition and the scaling component because of the size and scale of the CBRE platform. So yes, there is some scaling risk, but we're thoughtful about how we're doing that because of our incumbent advantages.

We can be the long-term holder of these assets. We can let them develop and grow, but we believe that the CBRE platform allows us to do that without taking undue risk.

How do you structure your mid-market funds?

Most infrastructure managers use closed-end funds for their mid-market investments. Those strategies work well if you are targeting the higher-return strategies. You create value as quickly as you can, and then you sell it to the next buyer. It can work within infrastructure, particularly in the mid-market space, and we've used it ourselves. However, infrastructure is a long-term asset. Managers and investors are finding that it doesn't necessarily fit the closed-end fund structure.

One of the trends that we're seeing is the rise of continuation vehicles. It's particularly acute with some of the larger funds where their closed-end fund is coming up against their 10-year fund life. There isn't always a deep exit market when they need to generate liquidity for investors. At the same time, if the asset is performing well, they would like to continue to manage the asset. It's not unusual to want to hold these assets for 15, 20, even 30 years. A better fit for that type of timeframe is an open-end fund.

Now, in the smaller mid-market, closed-end can still make a ton of sense because you can create that value. You have a steady buyer universe at the exit. The question then becomes, for investors, are you actually getting infrastructure characteristics with that strategy, or are you getting private

equity exposure with that strategy? Maybe on the margin investors are getting some downside protection because of the nature of these assets, but they should assess whether they are really getting just another industry vertical within the private equity universe.

There are pros and cons of both approaches. Our view is that because infrastructure involves long-dated assets, it makes sense that you have a long-term vehicle to match that in terms of horizon. It avoids some of the challenges right now in the market around continuation vehicles, and investors not getting enough liquidity. So, it's addressing some of the structural challenges that have come to light as closed-end vehicles are reaching their liquidity date.

Why aren't others using open-end infrastructure funds?

Some of the arguments against open-end funds involve what behaviors are being incentivized. Open-end managers are often accused of never wanting to sell so their investors never realize those returns. In some cases, that might be true, but the open-end structure does not preclude good portfolio management by actively selling assets when it makes sense.

Another pushback is around valuation, which is a bit puzzling to me. In my mind, open-end valuations are actually more robust, independent and transparent than closed-end funds because of the greater scrutiny investors demand as a true price at which they can enter or exit.

Finally, the current redemption gates in private credit funds are causing a concern. No question, in a severe market crash, an open-end fund will be facing the same problem as closed-end funds. Instead, we believe that many investors understand that in most normal market conditions, open-end funds provide a lot more flexibility if they need to rebalance the portfolio. It's much easier to rebalance with an open-end vehicle than going to the secondaries market and trying to sell closed-end positions.

So, while closed-end structures can have their place in some middle-market strategies, we really believe that the open-end structure fits the long-dated asset class better and provides investors with the diversification advantages of infrastructure while also giving them compelling returns with more liquidity flexibility.

How do you add value to your acquisitions?

There are a number of key value drivers that we can deploy given our advantages as a leading real assets platform. One that I will highlight is that there is often an opportunity to increase the value of a company by improving the management team. It is hard to find really good C-suite teams at the lower-middle-market level. Bringing in more seasoned professionals is one of the lower-hanging fruits when it comes to improving the performance of the asset. Being able to augment and improve the management teams to be appropriate for the business as it grows is a key value driver. Additionally, because infrastructure is less mature of an asset of class compared to private equity, the management team playbook is more impactful.

Is the economic and geopolitical risk environment affecting infrastructure?

If you look at the magnitude of the disruption around the Strait of Hormuz, it appears to be dwarfing anything that's ever happened before in the energy complex. It dwarfs the Russia-Ukraine war. It dwarfs what happened with OPEC in the '70s. If, in the end, it simply turns out to be more in line with prior shocks, it's still material. It is likely to cause higher inflation, slower growth and elevated rates. When you look historically at what asset class performs in an environment like this, infrastructure stands out, particularly private infrastructure. Broadly speaking, classically defined infrastructure assets tend to shine because of their defensive nature and inflation linkage. It doesn't mean that the asset class is always going to generate a fantastic return. But when you look at what equity markets have done in stagflation-like environments, infrastructure looks so much better. Just in the last decade, we've seen dramatic political changes, geopolitical shocks, the Russia-Ukraine war, COVID, inflation and other economic stressors. Yet infrastructure has proved to be consistently resilient throughout all of those macro shocks.

This performance through various economic environments is a prime reason that investors are saying they need more infrastructure in their portfolios. While there are differences by region and by type of investor, generally everyone recognizes that this is going to be a very important part of their portfolio going forward.

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CORPORATE OVERVIEW

CBRE Investment Management is a leading global real assets investment management firm with \$155.2 billion in assets under management as of March 31, 2026, operating in 20 countries around the world. Through its investor-operator culture, the firm seeks to deliver sustainable investment solutions across real assets categories, geographies, risk profiles and execution formats so that its clients, people and communities thrive.

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