

2026: The Real Estate Debt Super-Cycle

Attractive spreads, reset valuations, improving fundamentals, shifting bank activity and increasing loan demand appear to set the stage for a standout vintage, in our view.

IN A NUTSHELL

- We believe that 2026 will be a strong vintage for U.S. real estate credit, driven by a rare combination of attractive spreads, reset pricing, improving fundamentals and an expected surge of lending demand.
- Real estate lending spreads appear attractive on a historical basis and relative to corporate credit.
- Real estate prices have reset, giving lenders the ability to deploy capital at discounts to replacement cost and peak valuations. Meanwhile, a dwindling supply pipeline should support occupancy, rent growth and asset valuations in the years ahead.
- With over \$2 trillion in real estate loans set to mature by 2030, direct lending by banks still muted and transaction activity increasing, the opportunity set for private lenders potentially is both deep and durable.¹

Real estate lending spreads appear attractive on historical basis and relative to corporate credit

We believe yield potential for real estate credit remains highly compelling. While real estate lending spreads have come down from their highs during COVID (2020) and following the onset of the Fed's rate-hiking cycle (2023) (see Exhibit 1), they continue to hover near 10-year averages, offering compelling value relative to corporate bonds, in our view.

For example, spreads on fixed-rate <60% loan-to-value (LTV) loans average 170 basis points (bps), compared with 80 bps for investment-grade corporate bonds, a 90-bps premium (see Exhibit 2). To be sure, private real estate credit typically carries an illiquidity premium relative to listed bonds, but the gap is historically wide today.

Moderate-leverage floating rate loans currently offer spreads of approximately 250 bps (see Exhibit 2)². With modest leverage, these spreads potentially can rise to 400–500 or higher, with lenders typically receiving an additional 100–150 bps in upfront origination fees.³ With the SOFR curve pointing toward a 3-3.25% landing, we believe all-in coupons will likely remain elevated relative to long-term averages, even if short-end rates continue to decline.⁴

¹ Source: Mortgage Bankers Association. As of December 2024.

² Bloomberg (corporate spreads); Cushman Wakefield (real estate lending spreads). Weighted by sector: Industrial (35%), Residential (30%), Office (20%), Retail (15%). As of December 2025.

³ Cushman Wakefield and DWS. As of December 2025.

⁴ Cushman Wakefield and DWS. As of December 2025.

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Exhibit 1: Real Estate Lending Spreads



Source: Cushman Wakefield, weighted by sector: Industrial (35%), Residential (30%), Office (20%), Retail (15%). As of December 2025.

Exhibit 2: Asset Class Credit Spreads



Sources: Bloomberg (CMBS); Bank of America (bonds); Cushman & Wakefield (real estate loans, weighted by sector: Industrial (35%), Residential (30%), Office (20%), Retail (15%). As of December 2025.

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We believe reset values and strengthening fundamentals provide an attractive entry point

While corporate credit spreads are historically tight and equity markets are near all-time highs, real estate values – despite recent gains – remain 15% below peak values, and more in some sectors (notably office).⁵ Accordingly, investors can originate loans at substantial discounts to replacement cost – to which our analysis indicates values typically converge over time – potentially reducing the risk of collateral impairment.

The disparity between values and replacement costs has also curtailed construction (developer profit margins have been squeezed): starts are down by 55% from their recent highs (see Exhibit 3).⁶ Meanwhile, we believe that a growing economy and structural drivers (prohibitive housing costs, e-commerce, service-driven demand and a return-to-office for the residential, industrial, retail, and office sectors, respectively) should support leasing activity. This combination of limited supply and buoyant demand will, we believe, create a favorable operating environment for borrowers, supporting rent growth and debt service coverage.

Exhibit 3: Real Estate Construction



Source: CoStar. As of December 2025.

A refinancing super-cycle and resurgent transaction activity may fuel a multi-year wave of lending opportunities

A powerful force shaping the real estate credit landscape is the sheer scale of upcoming debt maturities. Over \$2 trillion of U.S. commercial real estate loans are scheduled to mature between 2026 and 2030⁷. Many of these loans were originated in 2021 and 2022 when interest rates were near zero and valuations higher than they are today. As these loans come due, many borrowers will likely face a shortfall between their existing loan balances and what traditional lenders are willing to advance, especially given today's more conservative underwriting standards. A substantial volume of loans has already been extended, indicating that the refinancing cycle is only beginning. As those extensions expire, we believe that refinancing needs will accelerate meaningfully, while borrowers facing valuation resets or unfinished business plans will require bridge or

⁵ Bloomberg (corporate bonds); Standard & Poor's (equities); NCREIF (real estate). As of December 2025.

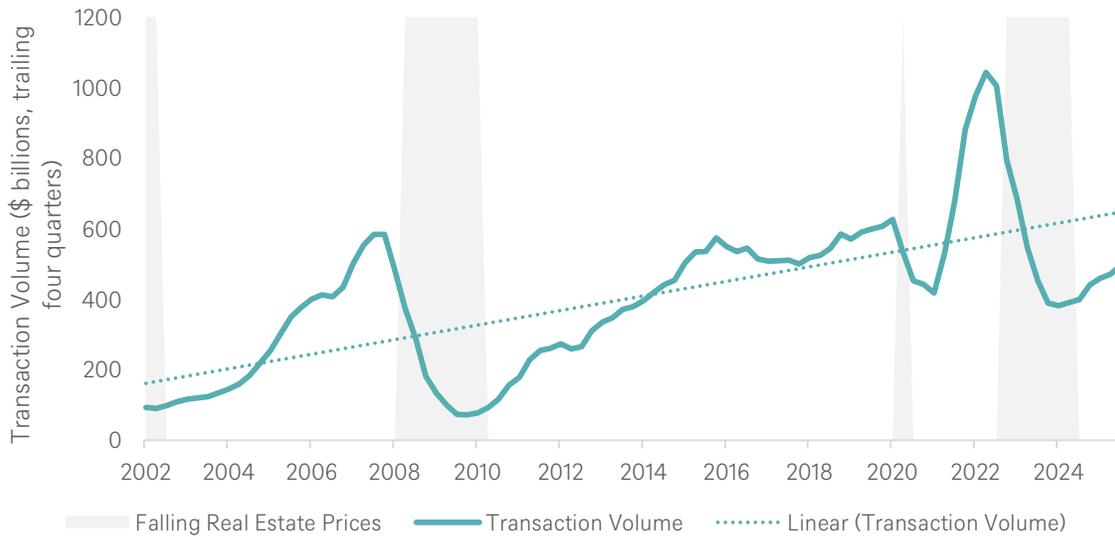
⁶ CoStar. Sector Weighted: Industrial (35%), Residential (30%), Office (20%), Retail (15%). As of December 2025.

⁷ Source: Mortgage Bankers Association. As of December 2024.

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transitional financing. At the same time, transaction activity is positioned to pick up meaningfully in 2026 as well, in our view: as base rates have drifted lower and price discovery improved, buyers have stepped back into the market (see Exhibit 4).⁸

Exhibit 4: Real Estate Transaction Volume



Source: MSCI. As of December 2025.

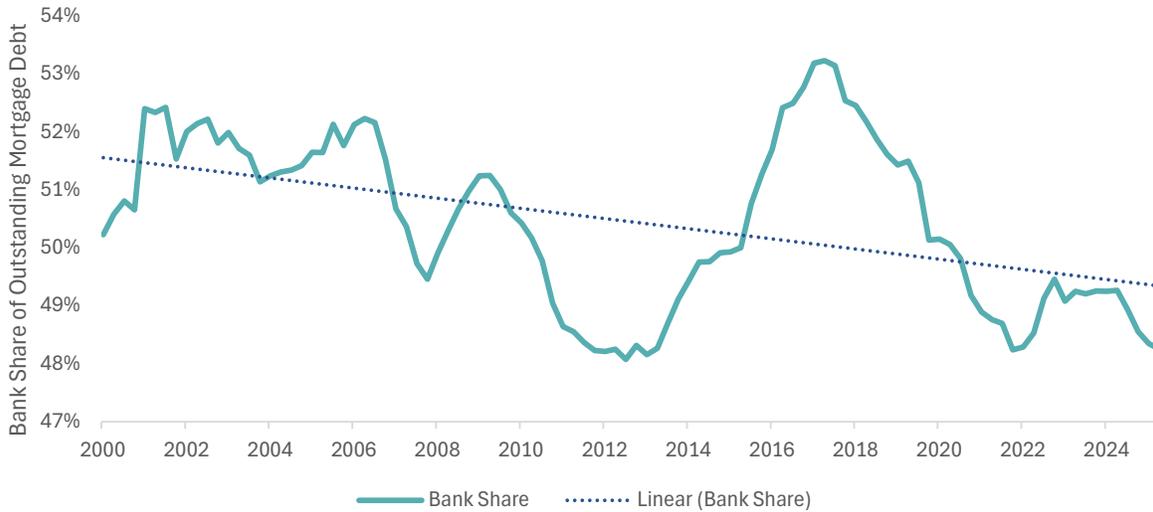
While demand for capital is rising, the supply of capital from banks remains constrained. National banks increased their lending activity in 2025, but overall bank participation in the commercial mortgage lending market remains well below pre-2022 levels, particularly among regional and community banks who are still working through legacy exposures and heightened regulatory scrutiny (see Exhibit 5). We believe that private lenders have been and can continue to be the beneficiaries of the pullback, as borrowers seek lenders capable of delivering flexible structures, rapid execution and transitional capital that banks are not positioned to provide. According to MSCI, the investor-driven share of commercial real estate lending activity more than doubled from less than 6% in 2020 to more than 14% in 2025.⁹

⁸ MSCI. As of December 2025.

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Exhibit 5: Bank Share of Outstanding Mortgage Debt



Source: Federal Reserve. As of June 2025.

To the extent that banks remain active in real estate debt markets, regulatory considerations incentivize them to do deploy capital indirectly versus lending on balance sheet. Directly originated loans often come with ~100% risk-weighting for senior mortgages and ~150% for construction or higher leverage loans. Instead, banks are increasingly choosing to extend credit to private lenders, where exposures often receive risk weights between 20-40%. This makes lending to private credit vehicles more capital-efficient and can generate a significantly better return on equity, even at lower spreads. For private lenders, it means more competition among senior financing providers, more attractive borrowing terms and highly accretive leverage that can potentially amplify returns without adding asset-level risk.

Conclusion

Together, these dynamics create what we view as a uniquely compelling setup for real estate credit: attractive spreads, reset valuations, improving fundamentals, and rising loan demand—all unfolding while banks remain selective, creating a potentially deep and durable opportunity set for private lenders. Against this backdrop, we see 2026 shaping up as a standout year—one where disciplined lenders can potentially capture compelling risk-adjusted returns while supporting the next phase of the market’s recovery.

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Counterparty risk – A financial institution or other counterparty that underwrites, distributes, or guarantees any private credit investments or contracts that the strategy owns or is otherwise exposed to, may decline in financial health, and become unable to honor its commitments. This could cause losses or could delay the return or delivery of collateral or other assets.

Prepayment and extension risk – When interest rates fall, issuers of high interest debt obligations may pay off the debts earlier than expected (prepayment risk), and the strategy may have to reinvest the proceeds at lower yields. When interest rates rise, issuers of lower interest debt obligations may pay off the debts later than expected (extension risk), thus keeping the strategy’s assets tied up in lower interest debt obligations. Ultimately, any unexpected behavior in interest rates could increase the volatility of the strategy’s yield and could hurt performance. Prepayments could also create capital gains tax liability in some instances.

Debt securities risk – Debt securities are subject to the risk of the issuer’s or a guarantor’s inability to meet principal and interest payments on its obligations and to price volatility.

Default risk – The issuers or guarantors of debt securities may fail to make payments or fulfil other contractual obligations.

Secured debt risk – Although secured debt generally will be secured by specific collateral, there can be no assurance that liquidation of such collateral would satisfy the borrower’s obligation in the event of non-payment of scheduled interest or principal or that such collateral could be readily liquidated.

Second lien and subordinated loans risk – Second lien loans generally are subject to similar risks as those associated with investments in senior loans, and, because they are subordinated or unsecured and lower in priority of payment to senior loans, they are subject to additional risks, including the risk that the borrower may be unable to meet scheduled payments, price volatility, illiquidity, and the inability of the originators to sell participations in such loans.

Private investment risk – Private investments are highly competitive, less transparent, and illiquid.

PIK interest risk – Loans with a payment in kind (“PIK”) interest component generally represent a significantly higher credit risk than coupon loans; may have unreliable valuations requiring continuing judgments about collectability and the value of any associated collateral; and the borrower could still default when the actual payment is due at maturity.

Direct lending risk – The lender in privately offered debt is responsible for the expense of servicing that debt, including, taking legal actions to foreclose on any security instrument securing the debt. This may increase the risk and expense compared to syndicated or publicly offered debt.

Interest rate risk – In general, rising interest rates in the market will negatively affect the price of the direct lending investments. Sensitivity to a change in interest rates is more pronounced and less predictable in instruments with uncertain payment (or prepayment) schedules. Central bank monetary policy, rising inflation rates, and general economic conditions may cause interest rates to rise.

Illiquid portfolio investments risk – Private credit investments generally will be long-term and highly illiquid.

Valuation risk – There is no central place or exchange for private credit investments to trade. Uncertainties in financial market conditions, unreliable reference data, lack of transparency and inconsistency of valuation models and processes may lead to inaccurate pricing and other market participants may value direct lending investments differently.

High-yield debt risk – High yield debt securities have historically experienced greater default rates than investment grade securities and are subject to additional liquidity and volatility risk.

Reinvestment risk – During periods of declining interest rates, an issuer of debt obligations may exercise an option to redeem prior to maturity, which could result in new investments with lower-yields.

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