The Case for U.S. Real Estate Debt Today: Base Rates, Back Leverage, Basis

How the 3 Bs are Driving the Opportunity Set

IN A NUTSHELL

- We believe U.S. real estate debt looks attractive today supported by high starting yields, floating-rate structures with interest rate floors, and sustained borrower demand driven by a large refinancing pipeline.
- Lending competition has increased and it appears highest at both ends of the risk spectrum: core, low-leverage lending and more opportunistic strategies, including construction. We believe the relative sweet spot is in core plus, moderate leverage lending.
- The opportunity can be understood through the 3 B's: base rates (income), back leverage (return potential enhancement), and basis (downside risk mitigation).

The Debt Market is Active, but Competition is Uneven

The debt market is active, and competition has increased, but it is not evenly distributed.

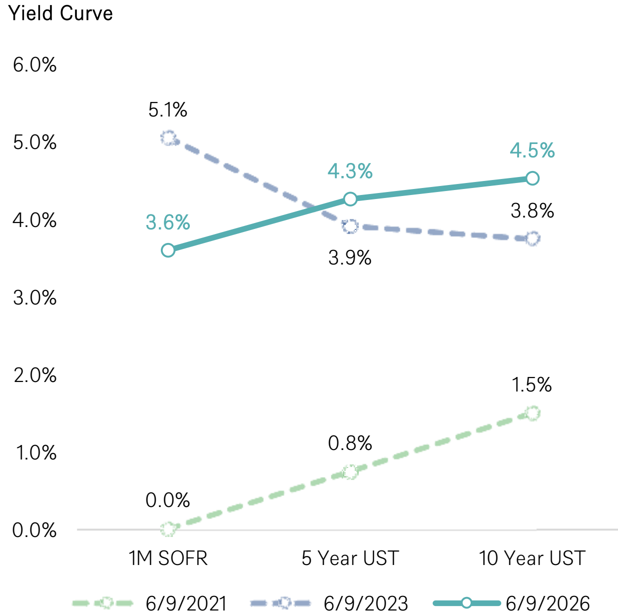
Instead, competition is increasingly barbelled. Capital is flowing heavily into low-leverage, stabilized lending on one end, and more opportunistic strategies on the other, while the middle, particularly moderate-leverage, transitional lending, remains less served in our view. That middle ground is where we see the most compelling opportunities.

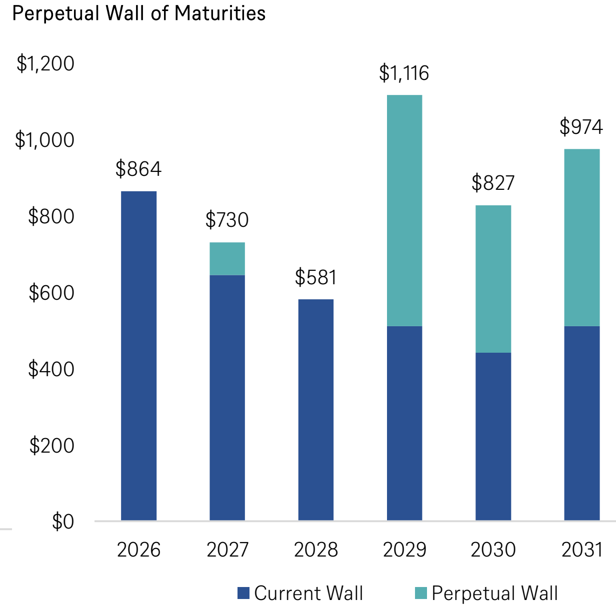
Importantly, this remains a large and growing market. With over $5 trillion of debt outstanding[1] and more than $3 trillion of loans maturing by the end of 2030,[2] a significant volume needs to be refinanced. As transaction activity recovers (+17% quarter-over-quarter and +42% from 2024 lows[3]), we expect that pipeline to continue to build. A key structural shift is reinforcing this dynamic. Across lender types, we have observed that originations have moved toward shorter-duration, five-year structures rather than traditional ten-year loans.

[1] Source: Mortgage Bankers Association. As of 1Q26.
[2] Source: Mortgage Bankers Association. As of December 2025.
[3] Source: Real Capital Analytics. As of March 2026.

This is pulling maturities forward and creating a rolling refinancing cycle–effectively a "perpetual" maturity wall–that we expect will continue to support a sustained opportunity set for alternative lenders.

Exhibit 1: Elevated Yields & Steep Credit Curve Creating "Perpetual Maturity Wall"





Past performance is not indicative of future results. Sources: U.S. Treasury (U.S. Treasury yields); Federal Reserve Bank of New York (SOFR); Mortgage Bankers Association (loan maturities, as of December 2025); DWS (Perpetual Wall, as of December 2025).

Where Competition Is Showing Up Today

Banks:

We have observed that large banks are back, but with a more targeted approach. They are effectively running a barbell strategy–allocating capital to indirect lending (back leverage) to optimize return on equity, while lending directly on core, stabilized assets and selectively to higher-spread opportunities such as construction to optimize return on assets.

That has, in part, driven tighter spreads on low-leverage stabilized deals as well as construction, leaving transitional lending less crowded.

Insurance Companies:

Insurance companies remain focused on low-leverage, fixed-rate lending on high-quality, stabilized assets, but their opportunity set has become more selective, in our view.

A steep yield curve has reduced the attractiveness of long-term, fixed-rate borrowing, pushing borrowers to shorter-duration structures. As a result, competition has intensified for deals that fit their model, while more complex or transitional situations largely remain outside their mandate.

Agencies:

Agencies continue to provide deep and consistent liquidity for multifamily, supported by $176 billion of annual lending capacity.[4]. That liquidity is highly targeted, confined to stabilized, qualifying multifamily assets, with at least 50% of lending required to support workforce and affordable housing.[4]

That creates deep liquidity within their target segment, but limited overlap with transitional and non-multifamily lending situations.

CMBS:

CMBS activity is concentrated in single asset single borrower (SASB) transactions, which provide financing for large, high-quality, stabilized assets. SASB issuance has totaled $44 billion year-to-date, up over 20% versus the same period in 2025, which was a record year.[5]

Conduit issuance[6] remains muted at $12 billion year-to-date and has shifted toward shorter-duration, five-year structures. CMBS continues to be well suited for standardized, stabilized assets, but does not provide an outlet for more complex or transitional deals.

Debt Funds:

Debt funds continue to fill these gaps. We believe their ability to provide speed, certainty, and more structured solutions allows them to focus on transitional and moderate-leverage lending–areas where competition is lower and spreads remain more attractive, in our view.

Exhibit 2: Lending Competition is Highest at Both Ends of Risk Spectrum (Core & Construction)

	Lending Activity				
Type	Core	Light Transitional	Heavy Transitional	Construction	Commentary
Banks	Active	Limited	-	Active	• Barbell: indirect for ROE, direct for ROA • Primarily low leverage stabilized + construction lending • Limited transitional lending
Insurance	Active	Limited	-	Limited	• Prefer stabilized, long-duration, fixed-rate lending • Limited transitional lending
Agencies	Active	-	-	-	• Primary liquidity for stabilized multifamily • Focused on mission-driven and workforce housing
CMBS	Active	-	-	-	• SASB on pace for record issuance[1] • Conduit issuance[6] muted given elevated yields[1]
Debt Funds	-	Fair Spreads[2]	Tight Spreads[2]	Tight Spreads[2]	• Primarily transitional lending; less crowded segment of market • Differentiated on speed, certainty and structuring

Legend: Active | Limited | Inactive

For illustrative purposes only. The noted samples above are provided for discussion and illustrative purposes only. These samples do not represent transactions done by DWS and are not representative of our investment experience as a whole nor is it representative of the transactions that might be available in the current market. No assurances can be given that any forecast or target will be achieved. As of June 2026. Source: DWS, unless otherwise noted. (1) Source: J.P. Morgan. (2) Source: DWS. Based on our current view of market spreads. Subject to change.

[4] Source: Federal Housing Finance Agency. 2026 multifamily loan purchase caps for Fannie Mae and Freddie Mac.
[5] Source: J.P. Morgan. As of July 2026.
[6] Commercial property loans that are pooled together and issued as securities to investors.

The 3 Bs Drive Today's Opportunity

We believe that this isn't a market where you should, or need to, reach for returns. Instead, returns are being driven by three factors:

- Base rates are supporting higher starting yields
- Back leverage is enhancing return potential
- Basis is providing downside risk mitigation

In our view, these dynamics are creating the potential for attractive returns, even in a more competitive market.

Base Rates: Doing More of the Work Today

Base rates remain elevated, and the market has shifted back to a higher-for-longer environment. While earlier expectations are centered on rate cuts, the path forward has become more uncertain given inflation, fiscal dynamics and geopolitical volatility.

For investors, this translates into a higher starting level of income. A larger portion of total return is coming from base rates themselves, reducing the need to take incremental risk, in our view.

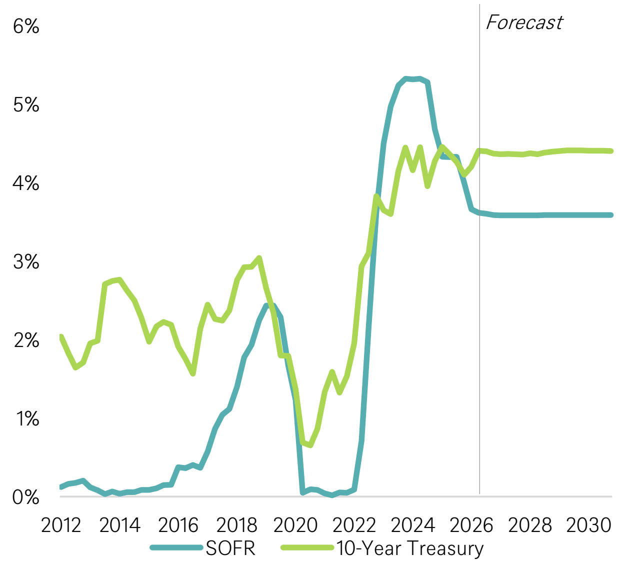
Spreads have tightened as competition has increased, but they remain broadly in line with historical averages and still compare favorably to other credit markets, where compression has been more pronounced[7].

Borrowers continue to favor floating-rate structures[8], potentially allowing lenders to benefit if rates remain elevated or increase further, while contractual SOFR floors help protect income if rates move lower.

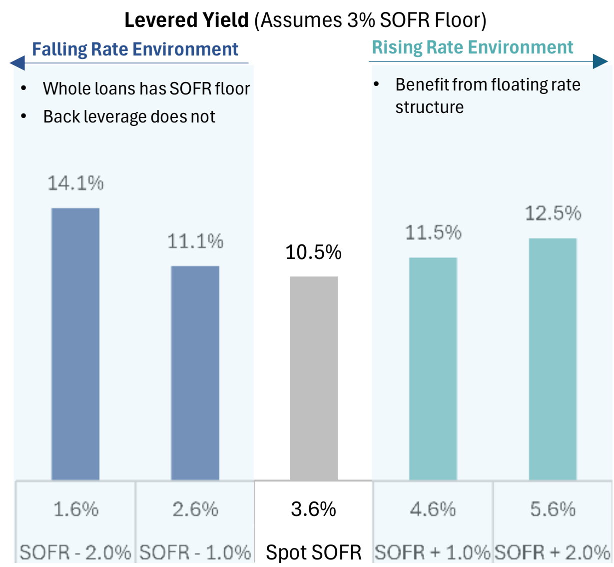
[7] Past performance is not indicative of future results. Note: Real estate loans weighted by sector: Industrial (35%), Residential (30%), Office (20%), Retail (15%). Sources: Bloomberg (CMBS); Bank of America (bonds); Cushman & Wakefield (real estate loans). As of May 2026.
[8] Source: J.P. Morgan. Compares single asset single borrower (SASB) CMBS issuance to conduit CMBS issuance.

Exhibit 3: "Higher for Longer" Supports All-In Yields

Reference Interest Rates[1]



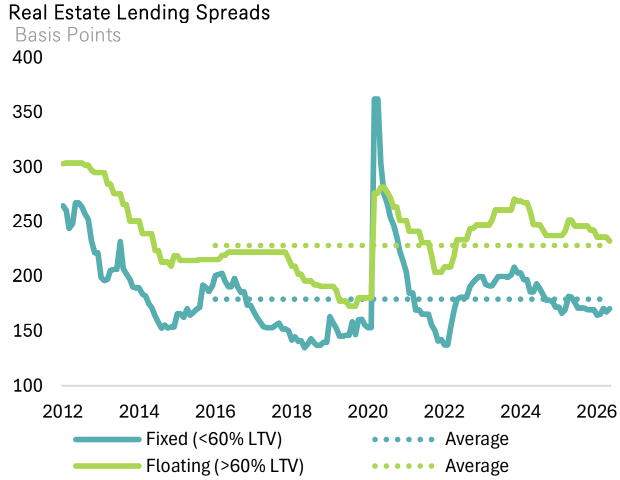
Well-Positioned for Various Rate Environments[2]



Past performance is not indicative of future results. (1) Source: Moody's Analytics. As of April 2026. (2) The noted sample is provided for discussion and illustrative purposes only. The sample does not represent transactions done by DWS and is not representative of our investment experience as a whole nor is it representative of the transactions that might be available in the current market. No assurance can be given that any forecast or target will be achieved. Assumes (i) whole loan spread of 2.50%, 1.00% origination fee amortized over a standard loan's initial term (3 years) and 3.00% SOFR floor; (ii) 75% back leverage advance rate at 1.30% spread and with 0.50% upfront fee; (ii) SOFR as of June 2026.

Exhibit 4: Real Estate Spreads Remain in Line with History, While Corporate Spreads are Tight

Real Estate Lending Spreads



Asset Class Spreads

Past performance is not indicative of future results. Note: Real estate loans weighted by sector: Industrial (35%), Residential (30%), Office (20%), Retail (15%). Sources: Bloomberg (CMBS); Bank of America (bonds); Cushman & Wakefield (real estate loans). As of May 2026.

Back Leverage: Targeting Enhanced Returns Through Structure

A structural shift in bank behavior is improving the availability and terms of back leverage. Banks are increasingly allocating capital through indirect lending to debt funds, which is more efficient from a regulatory capital and return-on-equity perspective.

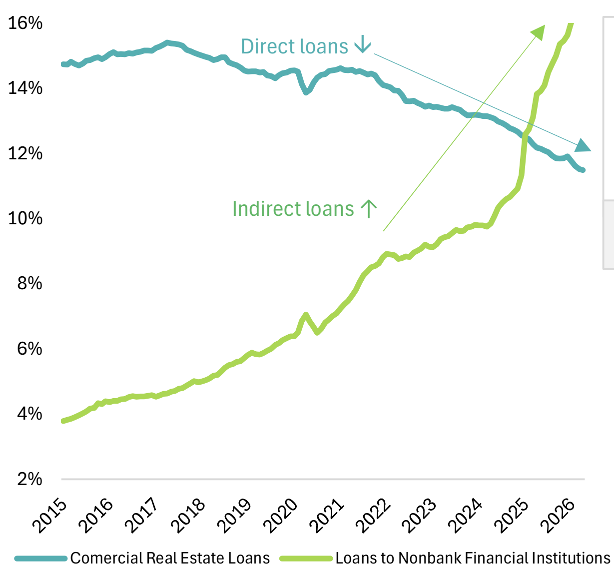
From a debt fund's perspective, back leverage allows them to finance a portion of originated loans at low cost and capture the spread between asset yield and financing cost while maintaining control and a senior position in the capital stack. Compared with other investments a debt fund could make, such as mezzanine loans, CRE CLOs or subordinated SASB CMBS positions, levered senior loans offer:

- Thicker investment positions (i.e. increased downside risk mitigation)
- Greater control
- Moderate LTV exposure

Key point: in our view, returns can potentially be enhanced through structure and financing efficiency, rather than taking incremental asset-level, location or business plan risk.

Exhibit 5: Banks' Shift to Indirect Lending is Improving Back Leverage Ability & Terms

Large Banks Prefer Lending to Non-Banks[1]



How Real Estate Debt Funds Seek to Generate Returns

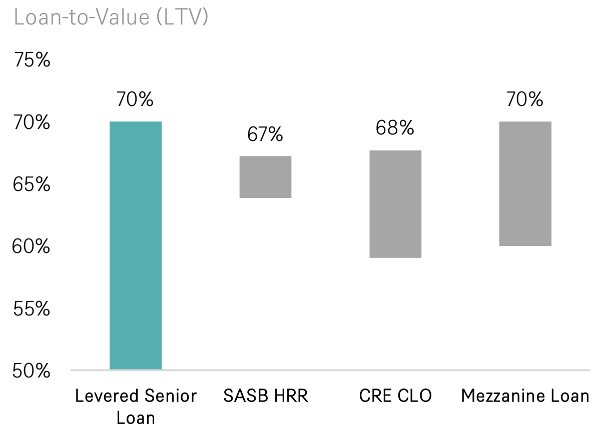
Competition Has Improved Back Leverage Terms

- ✓ Matched Term
- ✓ Non- or Partial Recourse
- ✓ Non-Mark-to-Market[2]
- ✓ Clear Grace & Cure Periods

Past performance is not indicative of future results. (1) Source: Federal Reserve. As of April 2026. (2) Not subject to capital markets marks.

Exhibit 6: Levered Senior Loans Provide Control, Thicker Investments & Simpler Capital Stacks

Investment Comparison



Thickness	29%	5%	13%	14%
Oppty Size	Large	Moderate	Moderate	Low
Control	✓	✓	✓	×
Return/Risk	High	Low	Moderate	Low

Thickness Increases Downside Risk Mitigation

Illustrative Downside Scenario

% Value Decline	Loss (%)			
	Levered Senior Loan	SASB HRR	CRE CLO	Mezzanine Loan
0%	-	-	-	-
//	//			
25%	-	-	-	-
30%	-	-	-	-
35%	25%	65%	50%	31%
40%	50%	100%	100%	89%
45%	75%	100%	100%	100%
50%	100%	100%	100%	100%

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Basis: Entry Point Matters

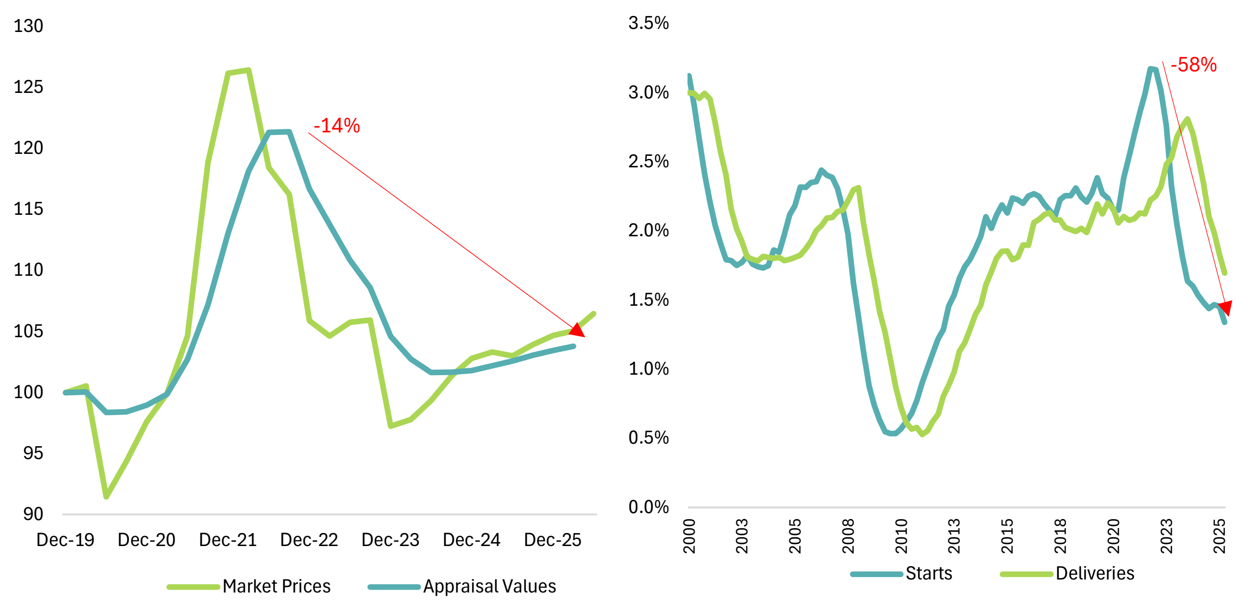
Today's lending environment is also characterized by more conservative entry points. Loans are being originated at ~60–65% of cost or value, supported by rising replacement costs and reduced new supply. This creates a meaningful equity cushion and can reduce reliance on future appreciation or business plan execution.

Key point: downside risk mitigation is built into the structure at origination.

Exhibit 7: Lending at Discount to Replacement Cost Can Increase Downside Risk Mitigation

Real Estate Prices & Values
Value Index (December 2009 = 100)

Construction Starts & Deliveries
Share of Inventory (Trailing Four Quarters)



Past performance is not indicative of future results. Note: Market prices weighted by sector: Industrial (35%), Residential (30%), Office (20%), Retail (15%). Sources: GSA (market prices); NCREIF (appraisal values); CoStar (construction starts and deliveries). As of March 2026.

Wrapping Up: Why Real Estate Debt Stands Out

This is a market where capital is available, but discipline still matters. Elevated base rates support income, back leverage is enhancing potential returns, and basis is providing protection. Taken together, these factors create a setup where investors can generate attractive potential returns without needing to stretch for risk, in our view.

We believe real estate debt continues to stand out on an absolute and relative basis and provides compelling opportunities for investors.

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