

Private Real Estate Debt: A banner 2025, with more room to run



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Introduction

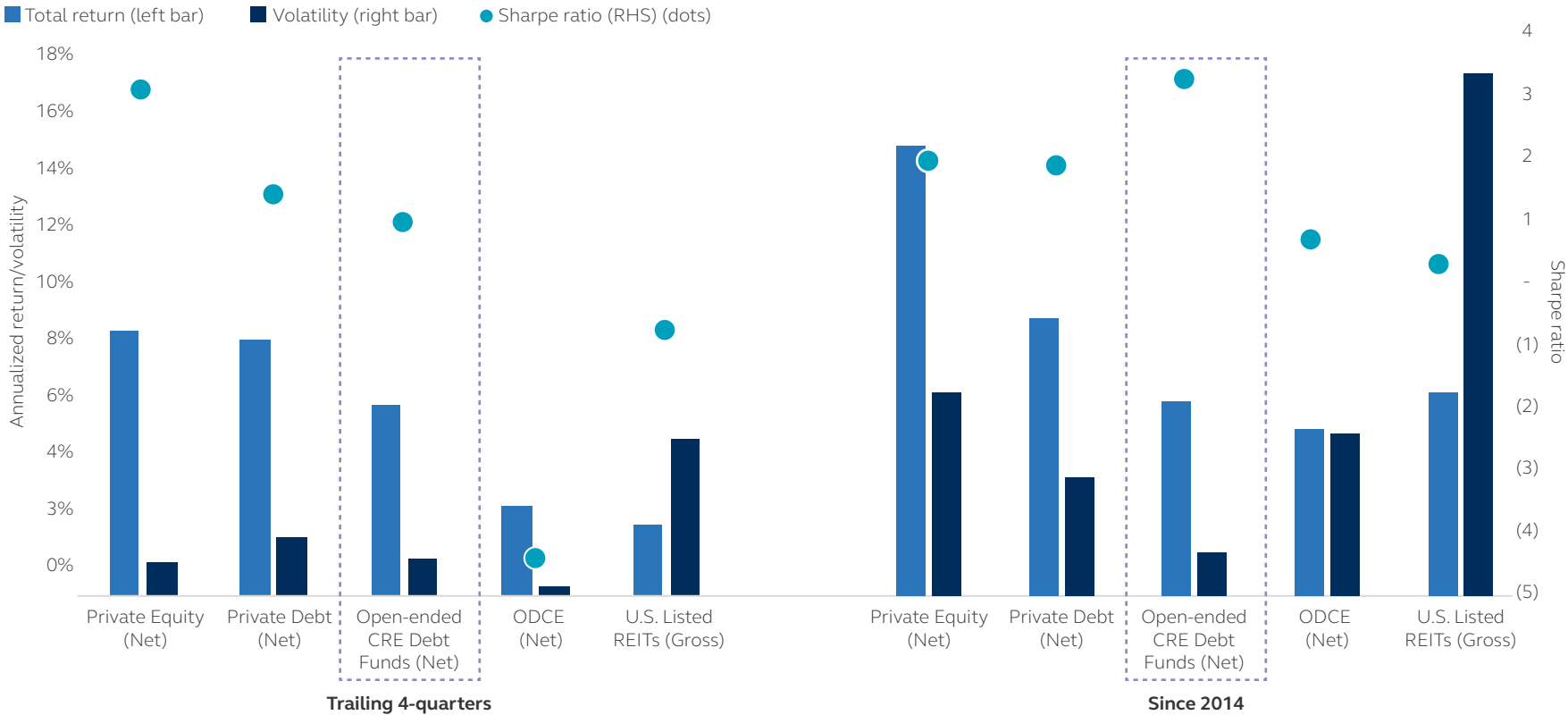
Total loan originations increased 47% year-to-date through 3Q 2025, reaching their fifth-highest level since 1Q 2002. Outstanding mortgage debt rose to nearly \$4.9 trillion as of 2Q 2025, up 4.5% year over year. Despite the increase in activity, lending standards remained conservative and did not loosen over the past year. Against this backdrop, the NCREIF/CREFC Open-End Debt Fund Aggregate delivered a 6.1% net^{*1} total return over the trailing four quarters, but some private real estate debt strategies may have outperformed even more. By comparison, the NCREIF ODCE index generated net total returns of 2.9%^{*2} and the U.S. listed REIT index delivered 2.3% gross.^{*3}

^{*1} Source: NCREIF, 3Q 2025

^{*2} Source: NCREIF, 4Q 2025

^{*3} Source: Bloomberg, 4Q 2025.

EXHIBIT 1: Annualized return, volatility, and Sharpe ratio, 2014-2025



Data as of 3Q 2025 for Preqin (private credit and private equity), 3Q 2025 for Open-ended CRE Debt Funds, 4Q 2025 for NCREIF (ODCE) and 4Q 2025 for Bloomberg (REITs).

In our [2026 Inside Real Estate Outlook](#), we reiterated that commercial real estate (CRE) debt remains our top recommendation across all four quadrants (public vs private and equity vs debt). Although increased competition has compressed spreads, we continue to see ample opportunity to originate attractive loans in the year ahead—the Mortgage Bankers Association forecasts total CRE originations to rise +27% in 2026. Risk-adjusted returns remain compelling, supported by conservative loan-to-value ratios on property values that have already reset by roughly 20%.

We also believe the stability of CRE debt funds is underappreciated. As a result, they play an important role in portfolio construction: over the medium to longer term, allocating to CRE debt within a broader mix of private corporate credit or private equity may help to reduce volatility, improve Sharpe ratios, and mitigate drawdown risk. It's possible that these benefits could become even more compelling in the years to come as CRE debt has already experienced a downturn, whereas private corporate credit and private equity have not.



What’s driving the wave of loan originations?

According to the Mortgage Bankers Association (MBA), total CRE mortgage originations increased +27% in 2025 to \$634bn. The positive momentum is expected to continue in the year ahead with originations rising another +27% to \$805bn, with core CRE rising +34% and multifamily increasing +21%. Investors often ask why CRE debt markets are gaining momentum even as distress continues to rise. The answer lies in where we are in the cycle and how opportunity is shifting within the market.

- 1

We believe the CRE cycle has entered recovery by most traditional measures. Public REIT valuations—often a leading indicator at cyclical turning points—have rebounded meaningfully from their 2023 trough. Private market valuations across major property types have stabilized, and credit markets are once again functioning, supporting renewed transaction activity. Distress, by contrast, is a lagging indicator and continues to rise as the long tail of the downturn works through the system. While elevated delinquencies may weigh on legacy portfolios still absorbing write-downs, they are far less relevant for new funds deploying fresh capital. In this sense, CRE debt has effectively become a “1.0 versus 2.0” market, with new vintages standing to benefit.
- 2

The widely discussed wall of maturities represents not just a risk, but a significant opportunity. A large share of loans coming due are refinancing rather than defaulting. Notably, 73% of CMBS conduit loans originally scheduled to mature in 2025 paid off at or before maturity as of the end of 2025, only modestly below the 78% historical average from 2012 to 2024. With approximately \$2.1 trillion of loans maturing over the next three years, refinancing demand should remain a durable source of origination opportunity.
- 3

Transaction activity is recovering. Transaction volumes were 17% higher in the first nine months of 2025 compared with the same period in 2024. Historically, rising volumes have been a reliable signal of improving market confidence, and higher transaction activity directly translates into increased demand for debt capital.
- 4

The elevated level of properties delivered in recent years continues to drive financing needs. Newly constructed assets often require bridge loans or permanent take-out financing, adding another layer of demand for CRE debt. While construction activity is expected to moderate going forward, the combination of recent deliveries, loan maturities, and improving transaction volumes supports a robust pipeline of opportunities for lenders.

CRE debt funds have been a clear beneficiary of these dynamics, with their share of total lending rising to a record 14% in 1H25, well above the post-2008 average of roughly 9%. We believe the true share is likely even higher once accounting for the portion of CMBS issuance tied to CRE CLOs, which many CRE debt funds use as financing vehicles. CRE CLO issuance reached its second-highest level since the post-GFC period in 2025, totaling more than \$30.5 billion. While competition is increasing, we expect CRE debt funds to remain an integral and durable component of the commercial real estate debt markets.

EXHIBIT 2: Loan maturities

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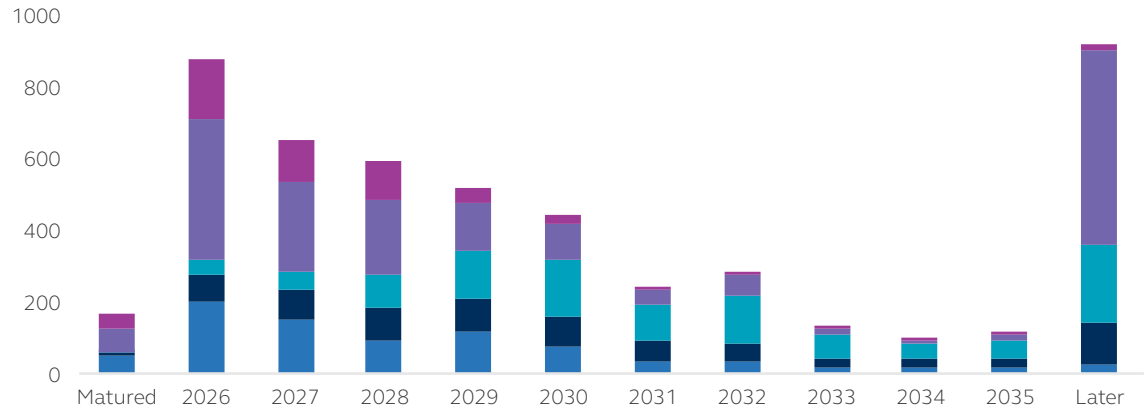
- CMBS, CDO or other ABS

Life Insurance Company

Fannie, Freddie, FHA and Ginnie Mae

Depositories

Credit Companies, Warehouse and Other



Source: Mortgage Bankers Association, February 2026

Attractive risk and volatility adjusted returns

Lending standards became less restrictive in 2025 (i.e., less tight), but they did not loosen. This distinction matters. More conservative loan-to-value ratios on property prices that have already reset by roughly 20% help mitigate the risk of further declines in unlevered property valuations. To put the magnitude in perspective, a further reset of this scale would imply cumulative valuation declines of more than 45% this cycle—well beyond the 30%–35% declines experienced in the early 1990s following the Savings & Loans crisis and during the Global Financial Crisis.

EXHIBIT 3: Sensitivity analysis of hypothetical loan impairment across LTV ranges and CRE price declines

		LTV									
		75%	70%	65%	60%	55%	50%	45%	40%	35%	30%
Price Decline	-2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	-4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	-6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	-8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	-10%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	-12%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	-14%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	-16%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	-18%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	-20%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	-22%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	-24%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	-26%	-1.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	-28%	-4.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	-30%	-6.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	-32%	-9.3%	-2.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	-34%	-12.0%	-5.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	-36%	-14.7%	-8.6%	-1.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	-38%	-17.3%	-11.4%	-4.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	-40%	-20.0%	-14.3%	-7.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	-42%	-22.7%	-17.1%	-10.8%	-3.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	-44%	-25.3%	-20.0%	-13.8%	-6.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	-46%	-28.0%	-22.9%	-16.9%	-10.0%	-1.8%	0.0%	0.0%	0.0%	0.0%	0.0%
	-48%	-30.7%	-25.7%	-20.0%	-13.3%	-5.5%	0.0%	0.0%	0.0%	0.0%	0.0%
	-50%	-33.3%	-28.6%	-23.1%	-16.7%	-9.1%	0%	0.0%	0.0%	0.0%	0.0%

Source: Principal Real Estate, January 2026

It is also important to remember that CRE mortgages are secured by income-producing real estate—the real estate itself is the collateral, and it does not disappear overnight. In the event of foreclosure, lenders can take ownership of the underlying property at an attractive basis, creating the potential for redevelopment or re-leasing at compelling returns.

We believe this dynamic is a key reason why open-ended CRE debt funds have delivered essentially flat annualized appreciation returns of -0.14% since 2014. The only years with negative returns were -3.1% in 2022, -4.3% in 2023, and -3.9% in 2024, as well as -1.6% in 2020 during COVID). Given our view that the commercial real estate cycle has entered a recovery phase, with prices across major property types having stabilized, we expect appreciation returns for open-ended debt funds to turn positive at some point in 2026.

We believe an even more important consideration is the relative attractiveness of volatility-adjusted returns for CRE debt versus private corporate credit and private equity. The latter two strategies have attracted substantial investor attention over the past decade, largely due to their strong absolute return profiles.

For example, as of 2Q 2025, our analysis of pooled net total returns from Preqin (after management fees and carried interest) shows that North American private equity vehicles (excluding venture capital) have generated 14.6% annualized returns since 1Q 2014, while North American private credit vehicles have delivered 8.7% annualized returns over the same period. By comparison, open-ended CRE debt funds have produced 6.2% annualized total returns, net of fees and promotes, over that same timeframe.

However, CRE debt funds also have much lower volatility than both private corporate credit and private equity over longer periods of time. As a result, we think the portfolio optimization benefits of adding an allocation of CRE debt to either alternative strategy is likely underappreciated. In Exhibit 4, we show modern portfolio statistics (MPTs) at various allocation bands based on a back test of returns since 1Q 2014. In every instance, Sharpe ratios are improved and a drawdown risk is mitigated by adding an allocation of open-ended CRE debt funds to a portfolio of private equity or private credit. While investors do give up some returns, we think it’s outweighed by the benefits.



EXHIBIT 4: Analysis of impacts of various allocations of open-ended CRE debt funds to a portfolio of private equity and private credit (2014 – 3Q25 back test)

Private CRE Credit vs Private Equity (2014 - 3Q25)

		Allocation Sensitivity Analysis										
Open ended CRE Debt		0%	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
Private Equity		100%	90%	80%	70%	60%	50%	40%	30%	20%	10%	0%
Return	125.2	386	348	313	280	249	220	193	168	145	123	103
Ann Return	7.5	14.4	13.6	12.8	12.0	11.2	10.4	9.6	8.8	7.9	7.1	6.2
StDev	1.1	3.25	2.96	2.67	2.38	2.09	1.81	1.52	1.25	1.00	0.79	0.68
Ann StDev	2.1	6.5	5.9	5.3	4.8	4.2	3.6	3.0	2.5	2.0	1.6	1.4
Ann Sharpe	2.2	1.79	1.83	1.88	1.95	2.02	2.12	2.24	2.40	2.58	2.72	2.55
MDD	-2.5	(5.3)	(4.7)	(4.1)	(3.5)	(2.9)	(2.3)	(1.8)	(1.2)	(0.6)	0.0	0.0

Private CRE Credit vs Private Credit (2014 - 3Q25)

		Allocation Sensitivity Analysis										
Open ended CRE Debt		0%	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
Private Credit		100%	90%	80%	70%	60%	50%	40%	30%	20%	10%	0%
Return	125.2	158	152	145	139	133	128	122	116	111	105	100
Ann Return	7.5	8.6	8.4	8.1	7.9	7.7	7.4	7.2	6.9	6.7	6.4	6.2
StDev	1.1	1.91	1.73	1.55	1.38	1.22	1.06	0.92	0.80	0.71	0.67	0.69
Ann StDev	2.1	3.8	3.5	3.1	2.8	2.4	2.1	1.8	1.6	1.4	1.3	1.4
Ann Sharpe	2.2	1.53	1.62	1.73	1.86	2.01	2.19	2.40	2.61	2.75	2.74	2.51
MDD	-2.5	(5.6)	(5.0)	(4.4)	(3.8)	(3.1)	(2.5)	(1.9)	(1.3)	(0.7)	(0.0)	0.0

Source: NCREIF/CREFC, Preqin, Principal Real Estate, 3Q 2025. MDD = max drawdown

Conclusion

Commercial real estate debt delivered strong performance in 2025 and is well-positioned for continued success in 2026 and beyond. With loan originations surging, lending standards remaining conservative, and property valuations having stabilized after meaningful resets, we believe CRE debt offers compelling risk-adjusted returns in today's environment.

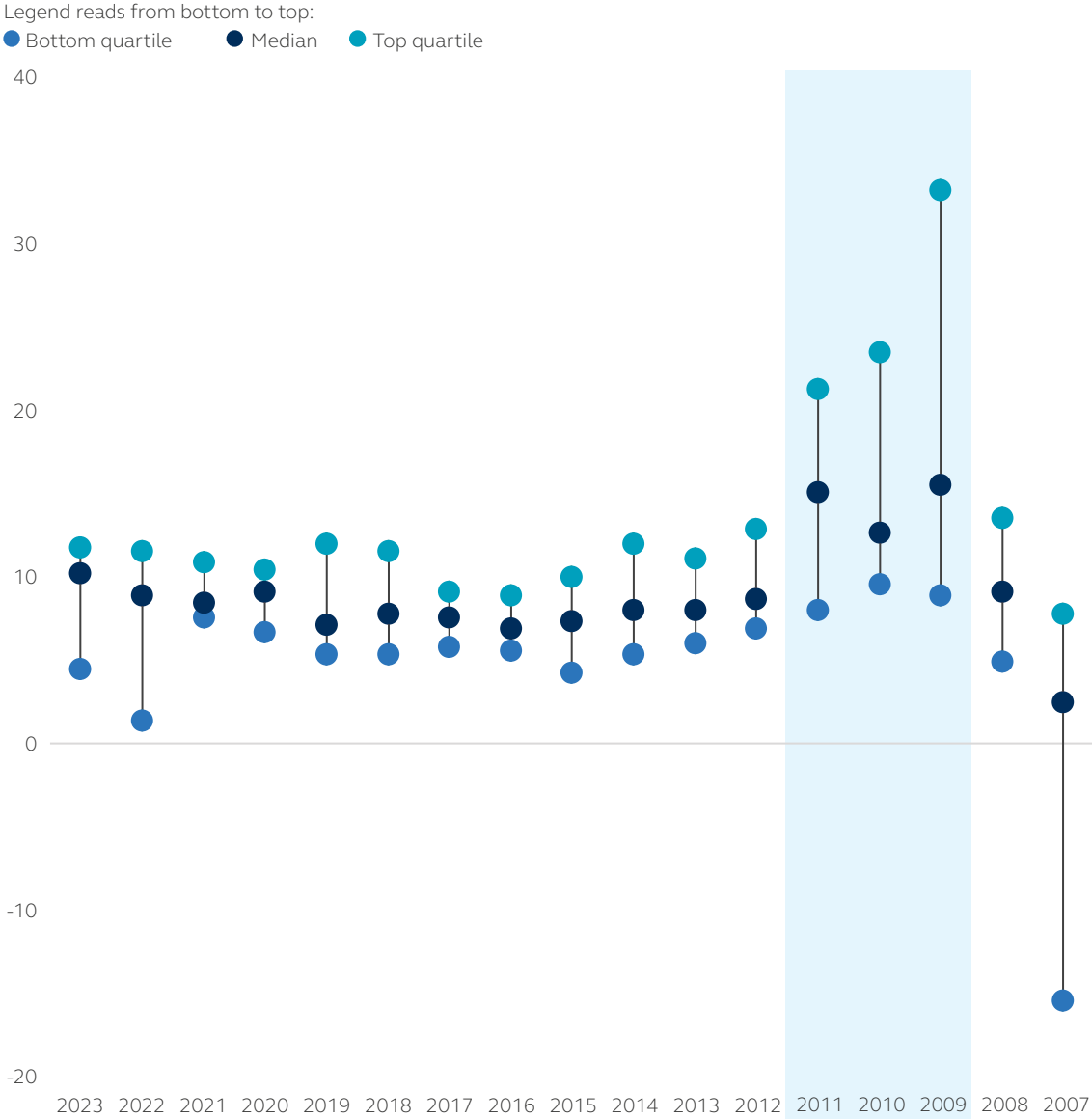
The fundamentals supporting CRE debt are on solid footing: a substantial refinancing pipeline, recovering transaction activity, and ongoing financing needs from recent property deliveries should sustain strong origination volumes. Meanwhile, conservative loan-to-value ratios on already-reset property values provide meaningful downside protection—a stark contrast to private corporate credit and private equity markets that have yet to experience a downturn this cycle.

Perhaps most importantly, CRE debt's stability and low volatility make it an effective portfolio diversifier. Our analysis demonstrates that allocating to open-ended CRE debt funds alongside private equity or private credit strategies can improve Sharpe ratios and reduce drawdown risk, even if it means modestly lower absolute returns.

As investors increasingly focus on risk management and portfolio resilience, we believe these benefits position CRE debt as a valuable complement to other private market allocations.

With the commercial real estate cycle having entered recovery and property prices rising again, thereby limiting losses, we maintain our conviction that CRE debt represents one of the most attractive opportunities across both public and private real estate markets today. Indeed, the best vintage returns for CRE debt funds historically occur in the early stages of an early cycle environment.

EXHIBIT 5: Historical range of IRRs by vintage



Source: Preqin, Principal Real Estate, January 2026

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