

Why real estate credit amid continued trade policy uncertainty and U.S. debt concerns?



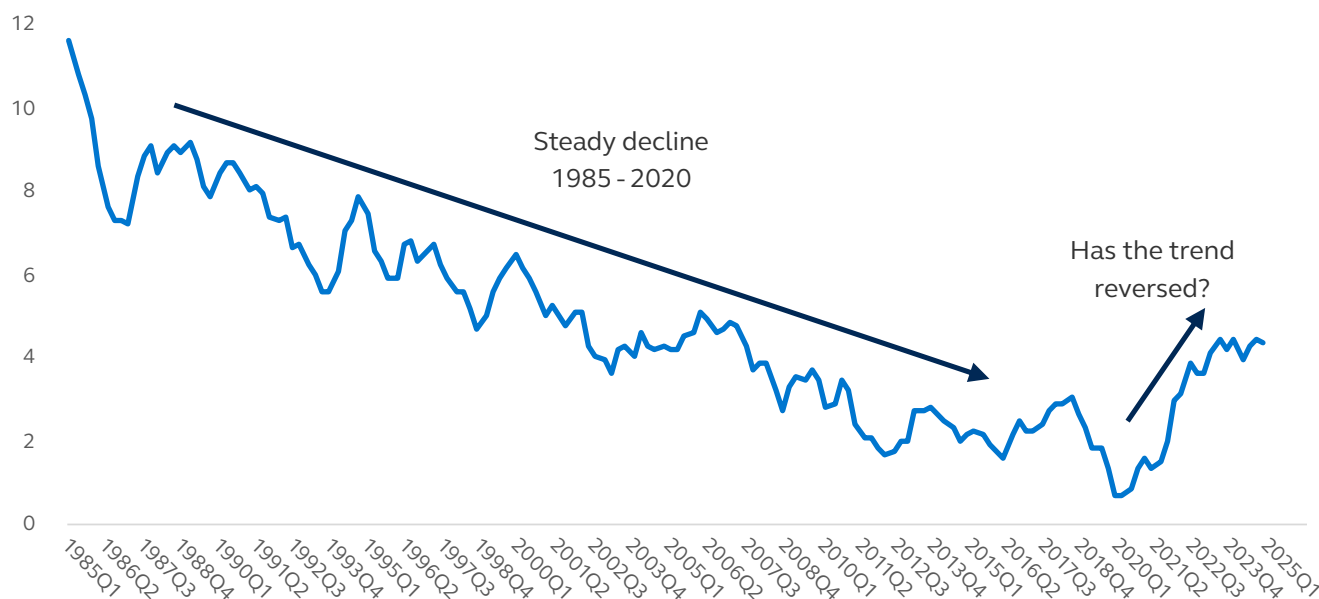
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Real estate credit has the investment profile to maneuver through potential secular changes related to the implementation of tariffs and the growing U.S. debt.

- High yield, real estate credit loans are usually floating rate which limits sensitivity to interest rates. Should long-term rates increase due to the U.S. debt load, fixed rate bonds become vulnerable. Stock equity multiples could also come under pressure.
- Short-term loans and the nature of the sponsor's business plans often lead to repayments enabling greater portfolio flexibility and adaptability to changing market conditions. The equity cushion afforded to real estate credit also resets as money is reinvested.
- Real estate credit loans produce income. The returns are not reliant on strong economic growth should trade policy slow the economy.

EXHIBIT 1: 10-YEAR U.S. TREASURY RATE

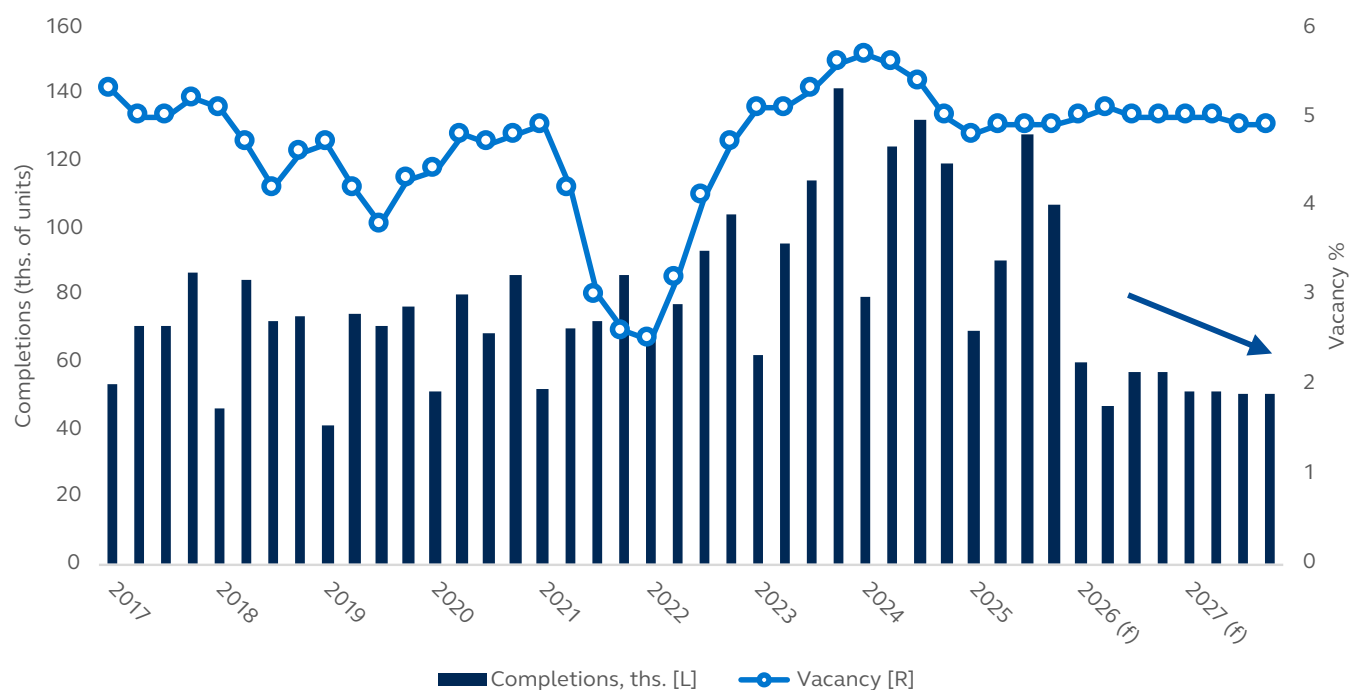


Source: U.S. Board of Governors of the Federal Reserve System (FRB); Moody's Analytics Forecasted, Principal Real Estate, Q2 2025

Real estate market fundamentals for several targeted sectors remain healthy.

- Construction starts for multifamily, industrial, and retail sectors are down substantially.
- Uncertainty around material costs due to trade policy is a headwind for development.
- Cost of home ownership continues to support demand for multifamily.
- New industrial assets are outperforming older inventory. Large U.S. REIT reports demand pipeline is increasing with tenants waiting on trade policy outcome.

EXHIBIT 2: MULTIFAMILY COMPLETIONS AND VACANCY (2017-2027 PROJECTED)



Source: CBRE EA, Principal Real Estate, Q1 2025

Banks are creating tailwinds for private lenders.

- Banks are encouraging borrowers to pay-off construction loans to manage real estate exposures.
- New assets coming off construction loans provide high quality collateral.
- Banks demand for direct real estate lending remains tepid (see Exhibit 3).
- As such, banks are providing attractive financing to private lenders (i.e. back leverage)

EXHIBIT 3: REAL ESTATE LOAN GROWTH

Year	2021	2022	2023	2024	Q1-25	Q2-25
RE Loan Growth	4.3%	11.3%	4.8%	1.7%	0.7%	1.2%

Source: Federal Reserve statistical release, commercial banks' balance sheets, 11 July 2025

Risk considerations

Investing involves risk, including possible loss of principal. Past Performance does not guarantee future return. All financial investments involve an element of risk. Therefore, the value of the investment and the income from it will vary and the initial investment amount cannot be guaranteed. Potential investors should be aware of the risks inherent to owning and investing in real estate, including value fluctuations, capital market pricing volatility, liquidity risks, leverage, credit risk, occupancy risk and legal risk. All these risks can lead to a decline in the value of the real estate, a decline in the income produced by the real estate and declines in the value or total loss in value of securities derived from investments in real estate. Floating rate debt instruments are subject to credit risk, interest rate risk, and impaired collateral risk, which means that the value of the collateral used to secure a loan held by the fund could decline over the course of the loan. Credit risk refers to an issuer's ability to make interest and principal payments when due. Private credit involves an investment in non-publicly traded securities which are subject to illiquidity risk. Portfolios that invest in private credit may be leveraged and may engage in speculative investment practices that increase the risk of investment loss.

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