



# COLLATERAL AND CONVICTION

WHY REAL ESTATE CREDIT STANDS APART

November 2025

# EXECUTIVE SUMMARY

After more than a decade of extraordinary growth, the resilience of private credit is now being tested, perhaps for the first time as a well-established sector of the capital markets. Recent events in the corporate lending space have raised questions about whether the industry's rapid expansion has also introduced structural vulnerabilities. Against this backdrop, a central question for investors is whether the performance of real estate credit will be differentiated as market conditions unfold.

While all credit markets are inextricably linked, conflating CRE credit with corporate credit under a singular rubric of "private debt" may lead to lost opportunity. As described in this report, we examine the developments that have prompted renewed scrutiny of private credit and assess how they compare with the state of real estate lending. In our view, the impact of broad cyclical forces currently at work serves to increase the opportunity set for CRE credit in the near term, while paradigm shifts in the competitive structure of the market will further ensconce well-positioned non-bank lenders into the future.





# MARKET AT AN INFLECTION POINT?

After years of abundant liquidity and benign credit stress, recent notable defaults have left investors questioning whether there are structural weaknesses associated with corporate credit underwriting that will disrupt what some describe as the "golden age" in private credit. The private lending landscape, particularly in corporate credit, has expanded at an unprecedented pace. Once the domain of niche funds, it now represents a \$1.34 trillion market in the U.S. and nearly \$2 trillion globally, and has grown roughly 5x since 2009.<sup>1</sup>

Defaults by First Brands, Cantor Group and Tricolor have shaken confidence in a market previously viewed as the safe, yield-enhanced alternative to traditional bonds. These types of events tend to surface when the economy begins to cool as it becomes harder for weak companies to obscure poor results behind a strong macro tide. **Today, the stock market sits at all-time highs, and corporate bond spreads are near 25-year lows, conditions that suggest public markets are priced to perfection leaving little cushion against further degradation. This is in contrast to the state of the CRE credit market, where valuations sit at or near cyclical lows.**

While corporate credit stress is concentrated in specific names, it is telling that headlines seem to have surfaced market sentiment that potentially deteriorating economic fundamentals might suggest these deals are "canaries in the coal mine." But more than that, both cases involved allegations of fraud and accounting irregularities leading to more basic concerns about the impact of private credit more generally. Some in the market are questioning whether risk is being appropriately priced and lenders are being disciplined in underwriting, due diligence and credit surveillance.



## PRIVATE CREDIT AND LINKAGE BETWEEN THE CORPORATE AND REAL ESTATE MARKETS

Non-banks have become major players in corporate financing. Their rapid growth is driven by several factors: banks have retreated from riskier segments due to post-2008 regulations, leaving space for non-banks; investor demand for yield has surged amid low interest rates; and nonbanks exploit regulatory gaps to offer flexible, covenant-lite structures. They also benefit from synergy with private equity, providing bespoke financing for leveraged buyouts. Combined with lighter oversight, these dynamics introduce systemic vulnerabilities that can spill over into the banking sector and broader financial markets.

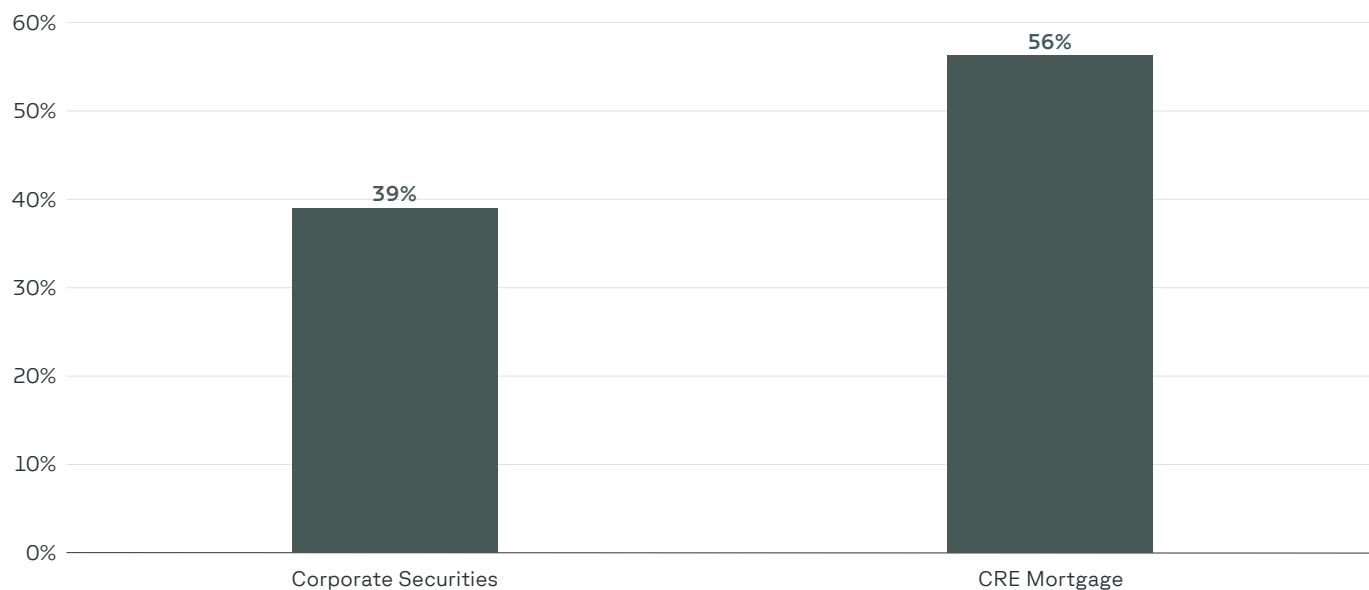
While stress in the corporate market does not directly cause commercial real estate defaults, it can trigger tighter liquidity conditions, amplify investor risk aversion, and heighten bank capital constraints, all of which negatively impact accessibility of credit across all markets. Recent defaults also underscore how opaque structures and aggressive risk-taking by non-banks can ricochet back to regulated banks, amplifying credit stress and eroding market stability. Aggressive use of structured funding vehicles (i.e., CLOs) fuel lending volumes and help create the opportunity for non-bank lending, as well as create significant risks that may challenge its long-term growth potential. Banks remain exposed to underlying credits via the warehouse facilities they provide to non-bank players.

Higher interest rates and slower growth affect both corporate and CRE markets simultaneously, and when stress emerges in one, it can crowd out credit availability in the other. Banks exposed to both sectors often respond by tightening underwriting standards, which constrains refinancing and investment activity. Moreover, rising corporate distress typically signals broader economic weakness, eroding property values and cash flows and increasing loan-to-value ratios. In that sense, the fates of private corporate and real estate credit are intertwined, not through shared collateral, but through shared capital channels and investor psychology.

1. As of Q2 2024. <https://www.federalreserve.gov/econres/notes/feds-notes/bank-lending-to-private-credit-size-characteristics-and-financial-stability-implications-20250523.html>

Real estate credit, while not immune to cyclical downturns, benefits from being anchored to tangible assets with clearer cash flow underwriting and valuation benchmarks. Corporate private loans, by contrast, are often underwritten against projected cash flows pursuant to business plans that can have less transparent underwriting support, including establishing the lender's position within the capital stack. As the private credit market matures, the distinction between cash-flow-based and asset-backed lending may well determine which segments prove more resilient in a slowing economic environment. Historically, recovery rates on defaulted loans have been higher for secured loans. Note that the true experience is likely even more favorable for CRE loans; while in the below table recovery rates for corporate securities are based on the 1970-2008 timeframe, for CRE loans the study covers only loans at failed banks from 2008 to 2013, following the GFC, and thus suffers from adverse selection.

#### EXHIBIT 1: RECOVERY RATES FOR DEFAULTED COMMERCIAL MORTGAGE LOANS VS. CORPORATE SECURITIES



Source: FDIC,<sup>2</sup> Moody's, Kansas City Federal Reserve,<sup>3</sup> Affinius Capital Research



2. Working paper, What Drives Loss Given Default? Evidence From Commercial Real Estate Loans at Failed Banks. <https://link.springer.com/article/10.1007/s11146-020-09783-4>
3. What Determines Creditor Recovery Rates? <https://www.kansascityfed.org/documents/1381/2012-What%20Determines%20Creditor%20Recovery%20Rates%3F.pdf>

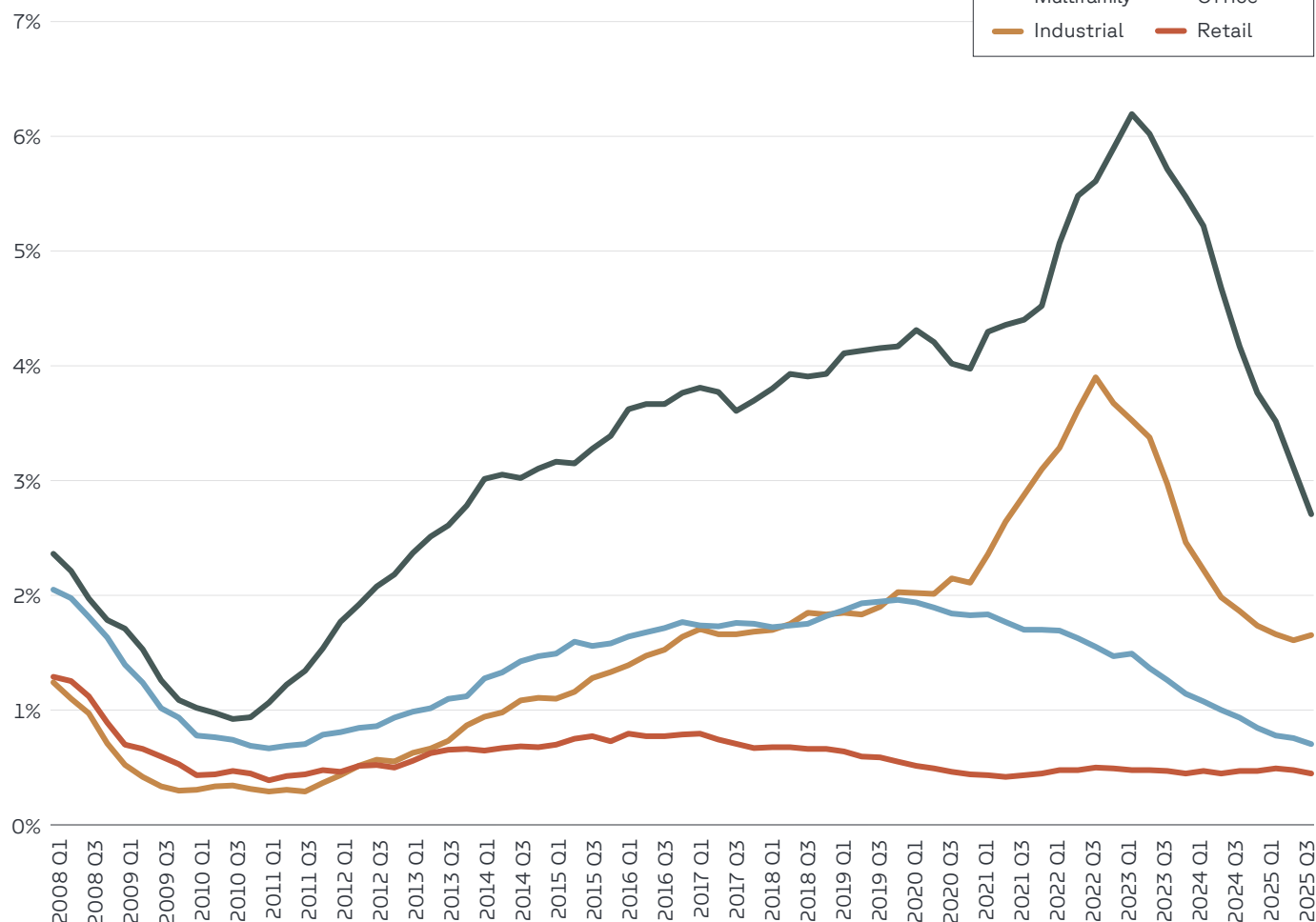
# RESILIENCE IN TODAY'S REAL ESTATE CYCLE

Unlike past downturns that exposed broad fragilities in real estate lending, today's market enters a period of potential stress from a position of relative strength. That said, the four-year period of illiquidity has not been without consequence. Many borrowers and lenders have had to navigate extensions, paydowns, and capital infusions as loans originated near the 2021–2022 peak cycle come due in a higher-rate environment. These challenges have created short-term friction in the market but also reflect a proactive, disciplined approach to managing maturing loans rather than the systemic distress that characterized prior cycles.

Several structural differences distinguish the current cycle from prior credit contractions such as the Savings and Loan (S&L) crisis of the late 1980s or the Global Financial Crisis (GFC) of 2008, when excessive leverage, rapid loan growth, and speculative construction pipelines left the sector highly exposed:

- 1 Weak commercial real estate loan performance historically coincides with periods of heavy new construction delivery. Currently, the development cycle is moving in the opposite direction. After a surge in industrial and multifamily completions from 2022–2024, construction deliveries are set to decline substantially in the coming years (see **Exhibit 2**) because of declining construction starts since 2022, as elevated construction and borrowing costs made it difficult for new deals to pencil. Despite recent supply, fundamentals across most property sectors remain sound, and the supply pipeline is now trending toward multi-year lows, a dynamic that should help stabilize rents and valuations even amid softer demand. In addition, the total AUM of private real estate debt funds is estimated to be \$262 billion,<sup>4</sup> just 4.2% of the more than \$6.1 trillion of total CRE loans outstanding.<sup>5</sup>

**EXHIBIT 2: U.S. UNDER CONSTRUCTION PIPELINE AS A PERCENT OF STOCK**



Source: CoStar, Affinius Capital Research

4. Preqin, as of Q2 2025.

5. Per Federal Reserve Flow of Funds, as of Q2 2025.

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Many of the sectors that were once flashpoints, most notably office and retail, have already endured years of repricing, conservative underwriting, limited new supply and in some cases, removal from existing stock. Additionally, meaningful time has passed since the beginning of down cycles specific to retail and office properties where there is now sufficient data for investors to identify assets that have potential for value appreciation. Lenders and investors have been actively managing risk exposure since the pandemic, and much of the overhang that typically builds during an expansion has already been addressed. The next phase of stress, if it materializes, is therefore likely to play out in markets and property types that have already adjusted to lower valuations and tighter capital availability. Overall, CRE valuations are down 25% in the U.S. from 2022 peak levels,<sup>6</sup> and this is consistent with public market valuations; since the end of 2021, U.S. REIT pricing is down 20%, while the S&P 500 is up 41% over the same period.<sup>7</sup>

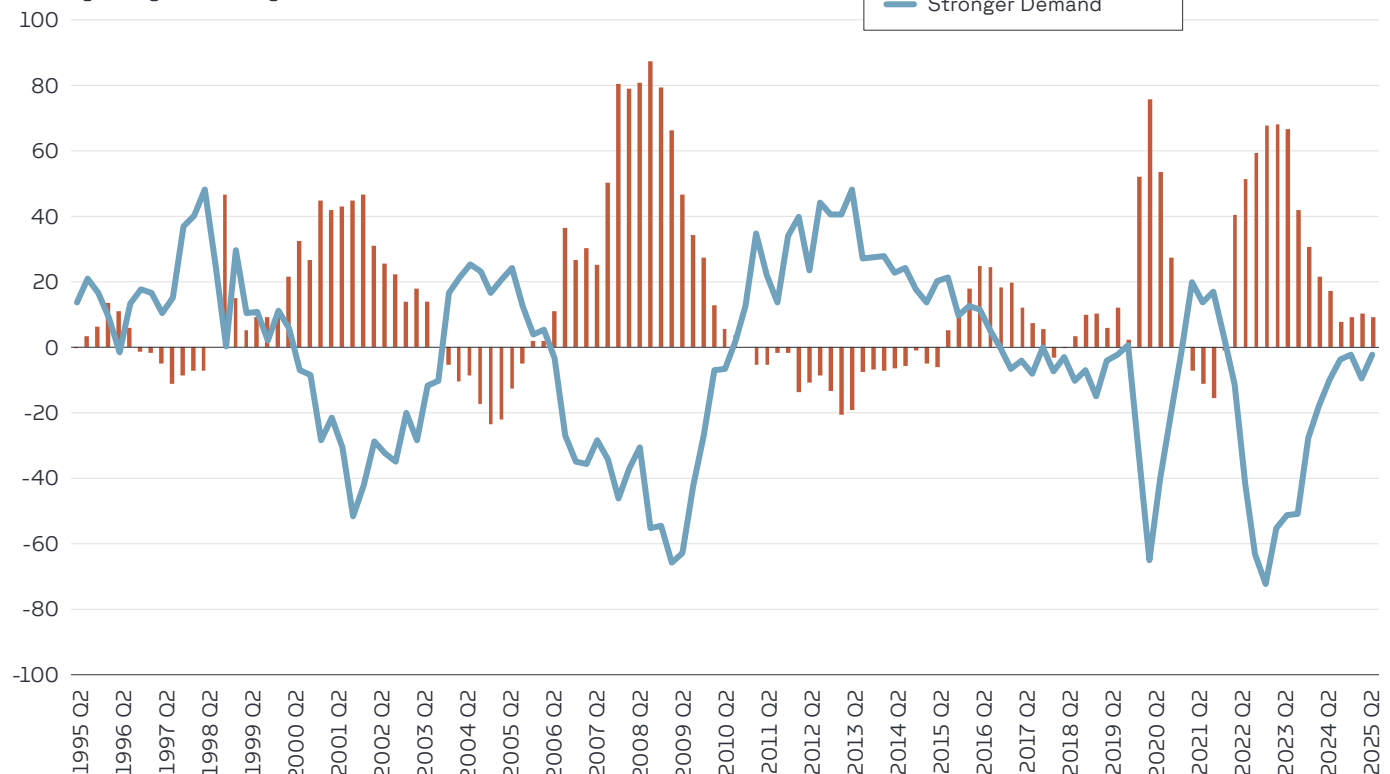
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The foundation of today's real estate credit market rests on far more conservative underwriting than in past expansions. Preceding the GFC, it wasn't unusual for lenders to offer LTVs approaching 90% and, in some cases, committed bridge loans for half the sponsor's equity. Bank surveys demonstrated sustained tightening in lending standards in the past few years (see **Exhibit 3**), and recently, banks reined in with some of the tightest standards since the GFC.



### EXHIBIT 3: BANK LENDING STANDARDS WERE TIGHT RECENTLY

% Net Tightening & Net Stronger Demand



Source: Federal Reserve Senior Loan Officer Survey, Affinius Capital Research

6. Per properties in the NFI-ODCE, though this varies across property sectors.

7. As of October 20, 2025.





# POSITIONED TO CAPITALIZE ON OPPORTUNITY ACROSS CYCLES

## SHORT-TERM OPPORTUNITY: FILLING THE VOID

For the reasons described below, Affinius has positioned itself to take advantage of any dislocation and tightening that potentially unfolds across the lending markets:

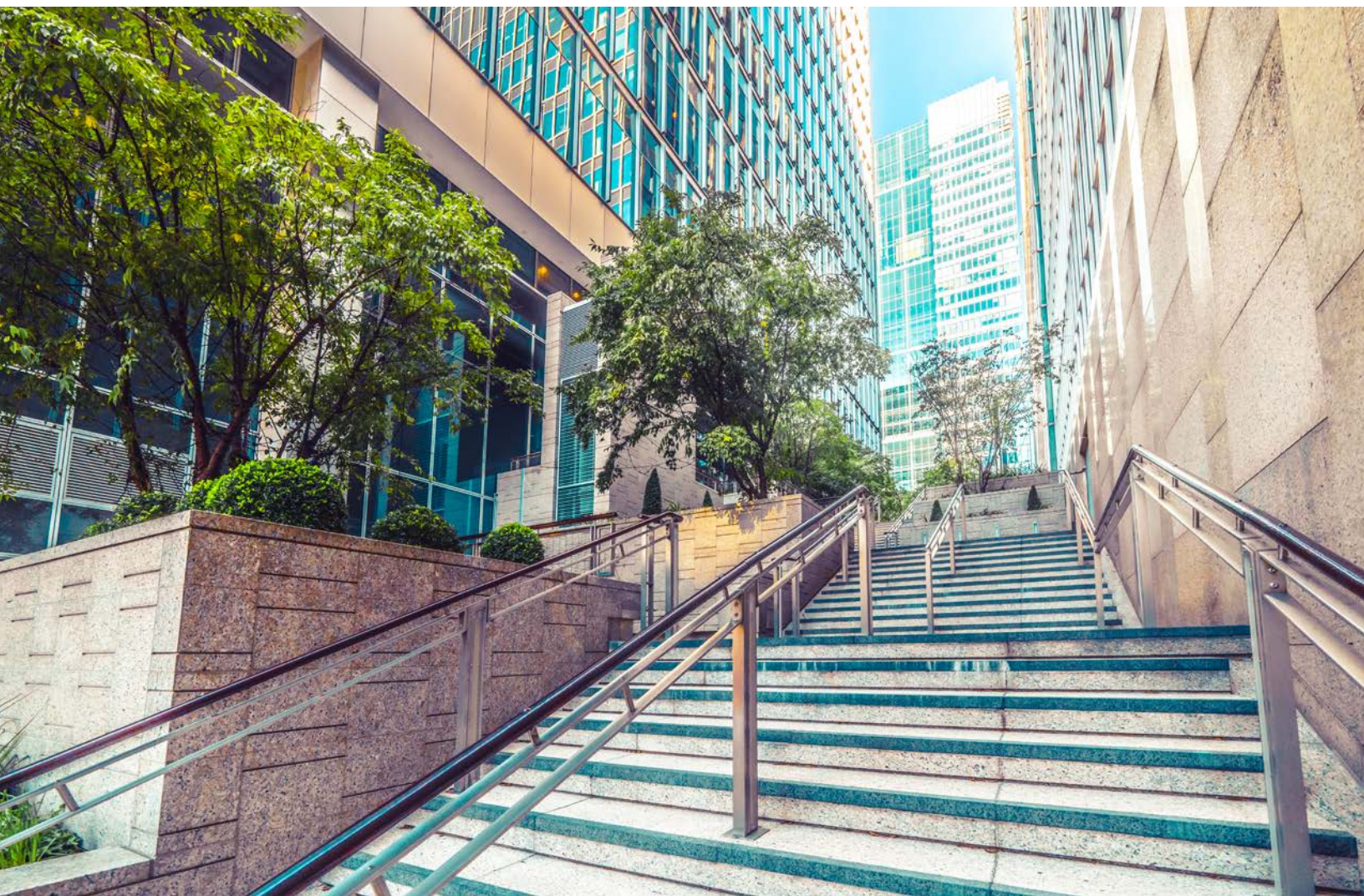


**With committed LP capital that is available for deployment over multi-year investment periods,** Affinius can move decisively in periods when banks pull back because of credit conditions related to real estate portfolios or other assets on their balance sheet. A well-developed product array enables Affinius to pivot towards what it believes are the most compelling opportunities, whether standing assets, construction, value-add, and across senior and mezzanine positions within the capital stack. This breadth of product allows targeted redeployment as risk premiums rise.



**The ability to deliver certainty and flexibility matters most to borrowers when markets offer little liquidity and more volatility.** With the operational infrastructure to deliver institutional quality, speed, and surety of close, Affinius can structure bespoke solutions for borrowers and actively manage positions throughout the life of the loan.

Historically, these types of environments have produced some of the best risk-adjusted returns in real estate credit.





## LONG-TERM POSITIONING: STRUCTURAL TAILWINDS FOR NON-BANK LENDERS

Over the longer horizon, paradigm shifts in CRE credit markets will reinforce Affinius Capital's strategic advantage.



**Operating conditions for banks and insurance companies also serve to strengthen the market position of non-banks by providing a deeper pool of lower cost senior funding.** This dynamic broadens the opportunity set and improves risk adjusted returns for investments originated by non-banks. More specifically, for banks, impending changes in the risk-based capital framework can make lending to non-banks (i.e., via warehouse) more profitable than direct lending to borrowers. For insurance companies, expanding liabilities associated with quickly growing insurance products, for example annuities, combined with limited origination capacity creates greater demand for investments that non-banks can generate.



**Affinius has well-developed capital markets capabilities that are centralized for our debt and equity businesses.** Substantial combined borrowing relationships with banks and insurance companies support the creation of strategic partnerships with leading banks and insurers that are focused on loan origination and optimizing senior funding.



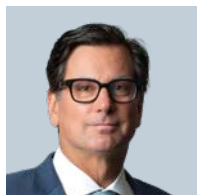
**Integrated investment skills across debt and equity products provide superior underwriting insight and portfolio management capabilities.** This integration extends through Affinius' asset management capabilities, allowing borrower performance to be monitored and drive value creation throughout the loan life cycle by proactively managing investments in a way that is aimed to be materially accretive to investment performance; key factors that distinguish Affinius from passive capital providers.



## CONCLUSION

The current environment marks a pivotal moment for credit markets, where the scale, underwriting skills and ability to proactively asset manage take on increased importance. As corporate lending faces the growing pains and markets recalibrate to a higher-rate world, real estate credit stands out for its tangible collateral, more transparent underwriting and for the opportunity of scaled platforms to leverage operating economies to strengthen their competitive position. Changes in operating conditions for traditional capital sources has not only expanded opportunity for well-capitalized nonbank lenders like Affinius Capital, but also improved the quality of those opportunities. Our recent originations reflect higher-caliber sponsors, stronger assets, and more favorable risk-adjusted terms than in the preceding cycle. With committed capital, deep relationships, and an integrated investment platform, Affinius Capital is positioned to exploit current market turmoil with focused intention to capture strong risk-adjusted returns and to leverage paradigm shifts that will favor leading non-bank players.

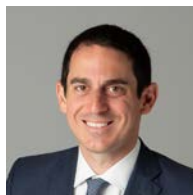




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