



THE CASE FOR BRIDGE/ TRANSITIONAL LENDING

IN A REPRICED WORLD

June 2026

EXECUTIVE SUMMARY

The financing gap created by the investment and construction activity of 2021 and 2022 remains structural and unresolved. Bridge and transitional lending are uniquely positioned to address that gap, and the historical return record suggests it is among the most compelling risk-adjusted opportunities available to institutional investors today.

- **The leverage shortfall persists.** Approximately \$719 billion in CRE transactions closed at sub-4% cap rates in 2021 and 2022, nearly double the prior decade combined, alongside record construction starts in multifamily and industrial. The rapid increase in interest rates fundamentally altered the refinancing economics of these deals. Improving liquidity changes the cost of senior debt at the margin; it does not close the gap in capital stacks that were built for a different interest rate and capital markets environment.
- **An attractive forward-looking origination environment.** Valuations are down approximately 20% from 2021-2022 peak levels, providing meaningful equity cushions at origination. New supply deliveries are projected to decline 65-75% in multifamily and industrial over the next two years, and history suggests that modern, high-quality assets in these sectors consistently outperform in the early stages of real estate recoveries.
- **Strong historical performance.** Since 2012, bridge and transitional loans have outperformed other CRE debt and fixed income indices on both an absolute and risk-adjusted basis. For insurance general accounts managing against liability-driven constraints, the combination of equity-adjacent yields, fixed-income-like volatility, favorable RBC capital treatment, and near-zero correlation to corporate bonds makes this an increasingly important allocation.




INTEREST RATE REGIME CHANGE & THE OPPORTUNITY TODAY

Commercial real estate capital markets have navigated one of their most turbulent periods in recent memory. The pandemic era created an extraordinary financing environment, including near-zero interest rates, aggressive fiscal stimulus, and surging institutional capital deployment that compressed cap rates across property sectors to historic lows. That environment ended abruptly in 2022, replaced by the fastest tightening cycle in forty years and a prolonged period of constrained liquidity, wide bid-ask spreads, and suppressed transaction activity. The past year has brought genuine improvement. Transaction volumes were up 27% in 2025 and are tracking approximately 15% higher year-to-date through April 2026. Financing conditions are gradually normalizing, and institutional capital is beginning to reengage.

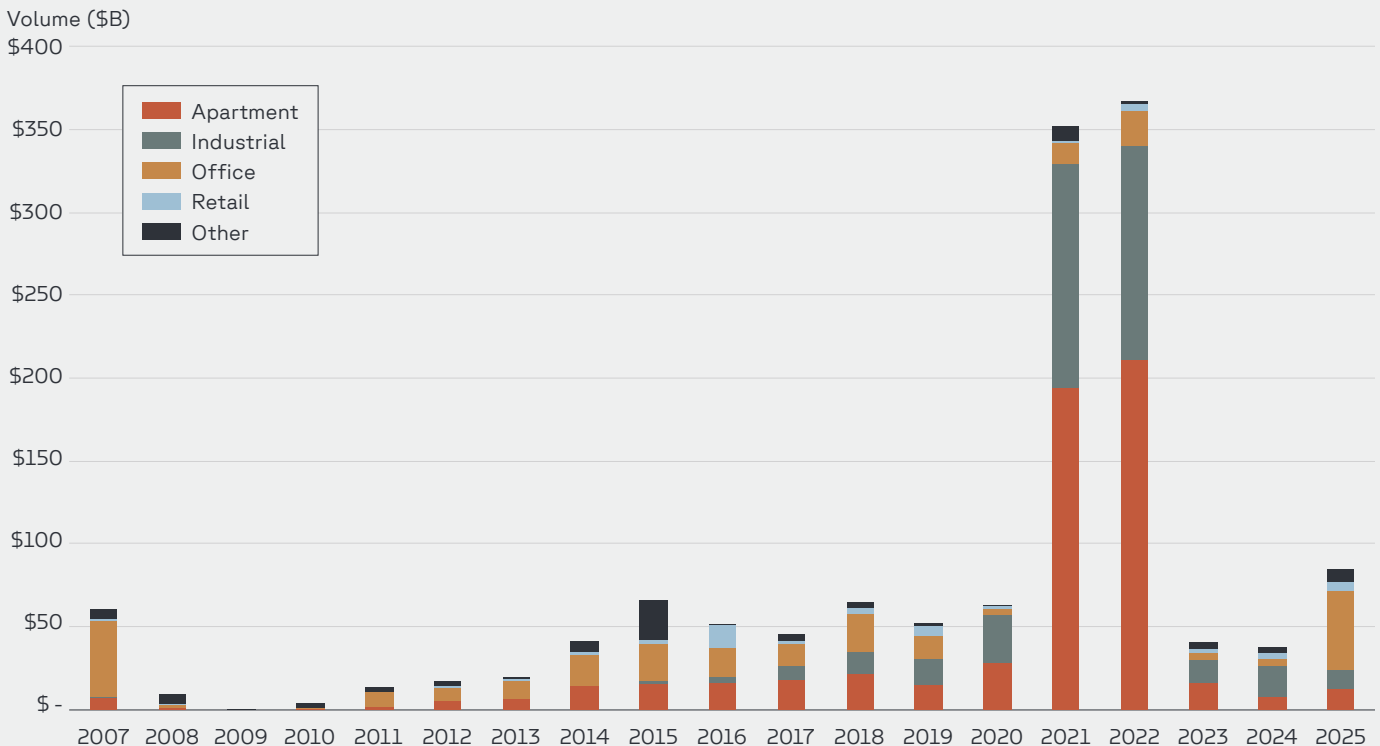
Amidst this backdrop, demand for bridge and transitional lending has not abated. The reason sits squarely in what happened during the peak years of the prior cycle; unprecedented levels of transactions closed at historically low cap rates, and record-high construction starts, particularly in multifamily and industrial, underwritten into a financing environment that no longer exists.

The primary driver is straightforward: **a rapid increase in short-term rates fundamentally altered the refinancing economics of every deal underwritten in that era, creating a gap between what capital stacks were built to support and what the market can bear today.** Against that backdrop, the senior lending environment has been shaped by two additional forces:

- Traditional lenders structurally pulled back from CRE lending, particularly transitional and construction lending, in the years following the GFC, a consequence of evolving regulatory capital requirements and concentration limits that have permanently reshaped bank appetite for this product, as we've discussed in our **RESEARCH** .
- Layered on top was a cyclical tightening driven by post-pandemic credit conditions, which is now beginning to show early signs of reversal. Bank liquidity has improved meaningfully following elevated payoff activity over the past twenty-four months, and competition for lower-risk senior lending opportunities has increased accordingly. At the same time, evolving Basel III capital considerations continue to constrain banks' appetite for higher-leverage and transitional exposure directly, encouraging greater use of indirect lending structures and participations. **As a result, competition for senior financing in multifamily and industrial has intensified, compressing senior spreads and helping preserve attractive levered returns for bridge lenders with deep funding relationships.** Greater competition among banks on the senior tranche may tighten pricing, but it does not bridge the gap between senior loan proceeds and total capital requirements.

The scale of that gap becomes clear in the transaction data. As shown in **Exhibit 1**, the U.S. commercial real estate market recorded approximately \$719 billion in transactions at cap rates below 4% in 2021 and 2022 alone, nearly double the total volume of sub-4% cap rate transactions across the entire preceding decade. This was an anomaly driven by the confluence of near-zero interest rates, aggressive institutional deployment, and the secular demand tailwinds behind two property types in particular: multifamily and industrial. Of that \$719 billion, 93% was concentrated in these two sectors, assets acquired or financed with underwriting assumptions that shifted significantly within eighteen months. For example, more than 76% of U.S. CRE transactions from the 2021/22 vintages were financed with floating rate debt,¹ leaving a substantial portion of the market directly exposed to the rapid increase in short-term interest rates and the resulting deterioration in debt service coverage and refinance proceeds.

EXHIBIT 1: U.S. CRE TRANSACTION VOLUME, BELOW 4% CAP RATE, BY SECTOR²



Source: RCA, Affinius Capital Research

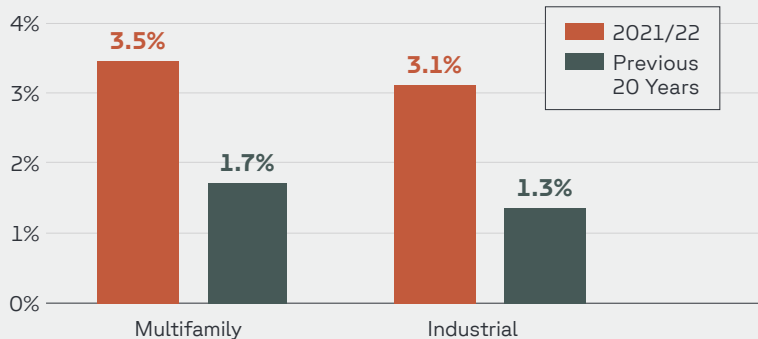
1. Per RCA
 2. Note that RCA doesn't have a cap rate reported on each transaction, so this analysis takes the distribution of cap rates where available and applies it to the entire transaction dataset to estimate total volumes by cap rate.

Alongside the spike in acquisitions, tight vacancy rates and surging tenant demand in multifamily and industrial drove a parallel boom in construction activity. As shown in **Exhibit 2**, construction starts in these two sectors during 2021 and 2022 were more than double their average over the preceding twenty years. That supply response has now largely run its course. For many of these projects, the construction phase is complete and the asset is either stabilized or actively in lease-up, and seeking permanent financing at a difficult moment. Valuations in multifamily and industrial are down approximately 20% from peak levels,³ and the interest rate environment that defined the construction underwriting has been replaced by a markedly different financing landscape. This valuation reset, while creating refinancing challenges for existing capital stacks, also means that new loans are being originated at meaningfully lower bases, providing an additional equity cushion that increases downside protection for the lender through the life of the loan. The result is a structural financing gap: first mortgage proceeds, sized against today's values and priced at today's rates, are frequently insufficient to take out the construction loan and meet borrower needs.

Recent increases in long-term interest rates have also introduced a second-order effect that is extending demand for transitional capital. In many cases, assets that obtained bridge financing over the past several years were originally expected to refinance into lower-cost permanent debt or access the transaction market upon stabilization. Instead, the repricing in long-term rates has reduced both permanent loan proceeds and buyer underwriting capacity, leading many otherwise performing assets to pursue an additional bridge or transitional financing period rather than execute a sale or conventional refinancing. As a result, bridge lenders are increasingly participating not only in the initial resolution of the 2021/22 vintage financing gap, but also in a subsequent phase of recapitalization activity as assets continue to season into a materially different capital markets environment.



EXHIBIT 2: U.S. MULTIFAMILY & INDUSTRIAL CONSTRUCTION STARTS, AS PERCENT OF EXISTING STOCK



Source: CoStar, Affinius Capital Research

While the financing gaps created by the 2021/22 vintage represent a challenge for existing capital stacks, they simultaneously create one of the more attractive new origination environments, as a result of several factors:

- Valuations offer attractive entry points relative to recent history.** Private real estate values in multifamily and industrial are down from peak levels, and both private and public market indicators suggest the cyclical trough is largely behind us. Current valuations provide a margin of safety.
- The new supply wave is ending.** Construction deliveries are projected to decline approximately 65% in multifamily and 75% in industrial over the next two years relative to recent peaks. Construction starts for both sectors in Q1 2026 were the lowest recorded since the market emerged from the GFC, suggest supply will remain muted. Assets stabilizing or in lease-up today will do so into a supply environment that is tightening, reducing competition for tenants and supporting occupancy and rent growth.
- History favors modern product in the early recovery phase.** Our **RESEARCH**  demonstrates that high-quality, newer-vintage assets have consistently outperformed in the initial years of real estate cycle recoveries. For example, in the two prior major downturns, modern industrial product delivered 175 to 215 basis points of annual unleveraged return outperformance relative to older stock during the recovery period. Today's bridge lending opportunities are concentrated in asset types that have historically led recoveries.

3. Down 27% in multifamily and 12% in industrial vs. recent peaks, per Green Street CPPI, as of Q1 2026.

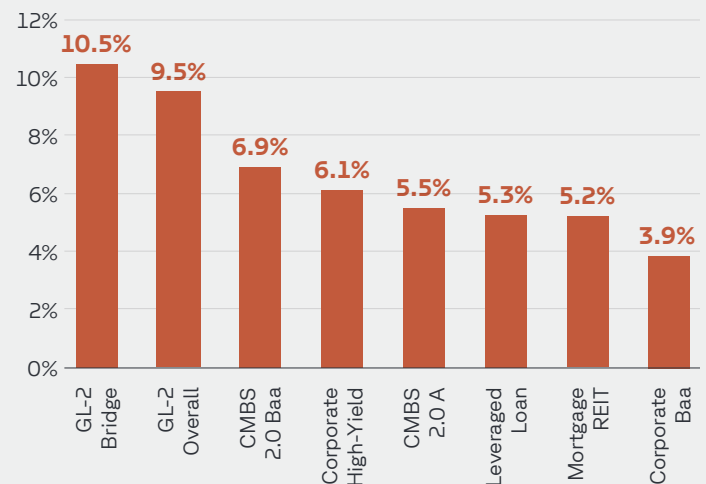
WHAT BRIDGE LENDING HAS ACTUALLY DELIVERED

The above examines the forward-looking opportunity. For bridge and transitional lending, historical performance is compelling as well. To examine it, we rely on the Giliberto-Levy High Yield Real Estate Debt Index (“G-L 2”), which captures the performance of higher-yielding CRE loans and offers specific breakouts for bridge, transitional, and value-add lending (henceforth “bridge”). This index is grounded in actual loan performance. We compare performance to institutional benchmarks, including CMBS, mortgage REITs, IG corporates, and leveraged loans, since Q1 2012, when index and bridge data is first available. As shown in **Exhibit 3**, the bridge subset of the G-L 2 index has outperformed across the full period by a meaningful margin, delivering 93 basis points of additional annual total return versus the broader G-L 2 index, and 357 basis points annually versus the CMBS 2.0 Baa index, the next highest-yielding public benchmark in the comparison.

Also notable is the volatility profile that accompanied this outperformance. The standard deviation of bridge and transitional loan returns over this period was just 1.3%, well below the range of 5.6% to 24.4% observed across the other indices, and demonstrates low correlation with other indices, as shown in **Exhibit 4**. The natural question for any private index is whether low volatility reflects true return stability or simply the smoothing effects of infrequent appraisal. But it is worth noting that this standard deviation is less than half that of the G-L 1, the first mortgage lending index, which is subject to the same private market dynamics. The more likely explanation lies in the structural characteristics of the loans themselves. Bridge and transitional loans are typically floating rate and spread-based, with far less duration risk than fixed income benchmarks and fixed-rate traditional mortgage lending. These loans are also typically structured with interest rate floors, allowing investors to participate in rising rate environments while retaining protection against declining rates, a two-sided characteristic that contributes to the stability of the income stream across rate cycles. With back-leverage prudently applied, the interest rate exposure of the underlying loans is further compressed. The resulting return profile pairs equity-like yields with comparatively low volatility relative to public fixed income markets, an attractive combination for insurance general accounts governed by liability-driven objectives.

The outperformance becomes even more pronounced when the lens is narrowed further. Since Q1 2013, when sector-level breakouts for multifamily and industrial are first available within the G-L 2 index, bridge, transitional, and value-add loans secured by multifamily and industrial properties have outperformed the broader index by 123 basis points annually; the two sectors that, as established earlier, represent the majority of today’s lending opportunity.

EXHIBIT 3: AVERAGE ANNUAL TOTAL RETURN PERFORMANCE COMPARISON ACROSS INDICES, 2012-2025



Source: Giliberto-Levy, Bloomberg, Affinius Capital Research

EXHIBIT 4: CORRELATION OF CRE BRIDGE LENDING TOTAL RETURNS VS. OTHER INDICES, 2012-2025

| | GL-2 Bridge | GL-2 Overall | CMBS 2.0 Baa | Corporate High-Yield | CMBS 2.0 A | Leveraged Loan | Mortgage REIT | Corporate Baa |
|----------------------|-------------|--------------|--------------|----------------------|------------|----------------|---------------|---------------|
| GL-2 Bridge | 1.00 | | | | | | | |
| GL-2 Overall | 0.02 | 1.00 | | | | | | |
| CMBS 2.0 Baa | 0.21 | (0.05) | 1.00 | | | | | |
| Corporate High Yield | 0.13 | 0.14 | (0.25) | 1.00 | | | | |
| CMBS 2.0 A | 0.27 | (0.09) | 0.93 | (0.20) | 1.00 | | | |
| Leveraged Loan | 0.08 | 0.08 | (0.22) | 0.88 | (0.20) | 1.00 | | |
| Mortgage REIT | 0.19 | 0.03 | (0.36) | 0.80 | (0.30) | 0.81 | 1.00 | |
| Corporate Baa | 0.11 | 0.02 | (0.20) | 0.83 | (0.16) | 0.62 | 0.70 | 1.00 |

Source: Giliberto-Levy, Bloomberg, Affinius Capital Research

CONCLUSION

The financing gap created by the 2021/22 vintages persists. Improving senior lending conditions and a recovering transaction market may reduce the cost of the senior tranche, but they do not eliminate the shortfall between first mortgage proceeds and total capital requirements. At the same time, the historical record for bridge and transitional lending is compelling on its own terms: superior returns relative to public benchmarks, with a volatility profile that reflects the structural characteristics of the instrument rather than the noise of public markets. Originating today means lending at reset valuations with meaningful equity cushions, into a supply cycle that is contracting sharply, against assets that history says outperform in early recoveries.

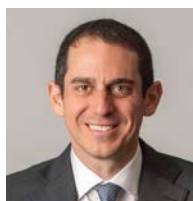
For insurance companies in particular, the alignment is compelling. Record annuity inflows are creating sustained pressure to deploy long-duration capital at yields that support the underlying insurance product liability. Commercial real estate bridge and transitional lending have delivered equity-adjacent yields with fixed-income-like volatility, and does so with capital efficiency (most first mortgage bridge loans fall within the CM2 RBC category, and those with back-leverage in the CM3 category) under U.S. insurance company RBC frameworks. Thus, these types of commercial real estate loans compare favorably to other asset classes from an RBC standpoint.



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