

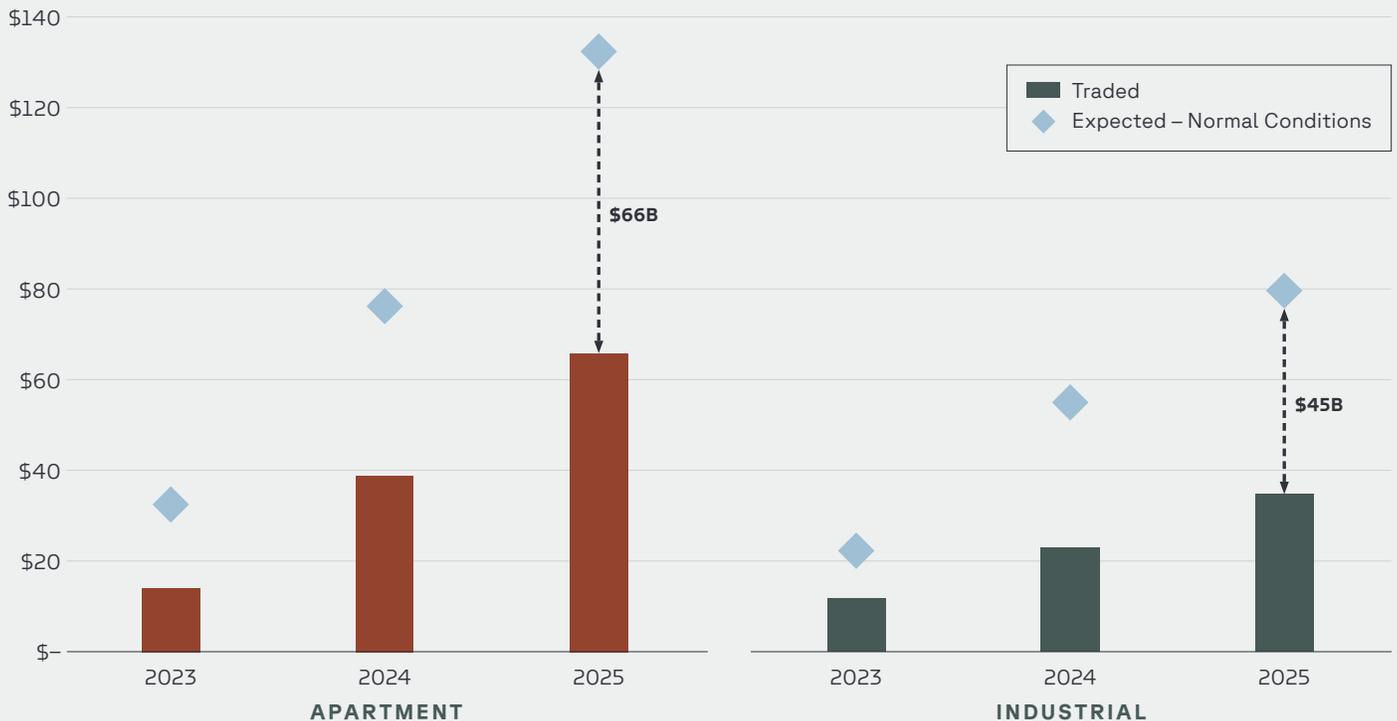
Real estate lending has evolved beyond a cyclical play to become a **core component of portfolio construction**, offering durable income, capital preservation, and an attractive opportunity in a market still working toward equilibrium. While concerns around private credit have surfaced, largely centered on corporate lending structures and underwriting discipline, real estate credit continues to stand apart, anchored by tangible collateral, transparent valuation benchmarks, and conservative capital stacks.

As outlined in our recent **WHITE PAPER**, conflating CRE credit with corporate private credit risks obscuring meaningful differences in risk profile and recovery outcomes, particularly in a slowing economic environment

Our approach throughout this cycle has emphasized discipline over deployment speed. We have continued to originate loans against current market values, applying conservative leverage, realistic rent growth assumptions, and prudent exit cap rate buffers. This underwriting posture has preserved credit quality even as spreads widened materially in 2022 and 2023, generating returns that exceeded initial projections. While we are seeing early signs of return normalization as liquidity improves and lender competition modestly increases, current pricing remains compelling relative to underlying risk.

In our view, the durability of real estate credit returns is less about peak spreads and more about identifying opportunity through the underwriting cycle, particularly at a time when equity valuations remain uneven and refinancing risk continues to shape borrower behavior. In fact, our research suggests that there is substantial pent-up acquisition volume; from the 2021-24 construction vintages in multifamily and industrial, just in top U.S. markets, we estimate more than \$112 billion in trades that would have occurred in a normal transaction market that require creative solutions and repositioning of capital stacks, as shown in **Exhibit 1**.

EXHIBIT 1: U.S. TRANSACTION VOLUME VS. HISTORICAL TREND



Source: RCA, CoStar, Affinius Capital Research

Importantly, demand for real estate credit is being reinforced by structural shifts in the broader financial system. Operating conditions for both banks and insurance companies are increasingly strengthening the position of non-bank lenders by expanding access to lower-cost senior capital. For banks, evolving risk-based capital frameworks continue to favor lending to non-banks, often through warehouse and financing facilities, over direct CRE origination, improving capital efficiency while transferring asset-level risk. For insurers, as detailed in our **RESEARCH**, record annuity sales driven by an elevated rate environment and demographic tailwinds have expanded long-duration liabilities faster than internal origination capacity, increasing demand for high-quality credit investments that non-banks are well positioned to generate. Regulatory treatment further supports this trend, as real estate debt benefits from favorable capital charges relative to equity and many alternative assets, making it an efficient vehicle for yield enhancement and asset-liability matching.

This asset class offers diverse strategies that cater to varying risk appetites while filling critical gaps in the capital markets:

Core First Mortgage Lending

Current market dynamics, including the elevated rate environment and some existing lenders dealing with extensions and challenges in the portfolio, are creating opportunities to originate lower leverage mortgages with attractive coupon rates and spreads. These loans have exhibited compelling attributes for investors over the last 20 years, with strong relative value, risk-adjusted returns, and low correlations versus other asset types.

Gap Capital

Lender retrenchment in recent years has lowered LTVs available from many senior lenders; combined with reduced valuations in the current environment, this is offering attractive detachment points for gap capital strategies, offering equity-like yields but with the benefits of subordination.

Construction Lending

The sharp decline in bank construction lending, negative in 2024 and through the first three quarters of 2025 for the first time since the GFC, created a vacuum for private credit to step in. Investors with flexible capital are well-positioned to take advantage of favorable terms in construction, much of which is projected to deliver in a lower-supply competitive environment.

Across strategies, we remain focused on selectivity: partnering with experienced sponsors, prioritizing assets aligned with today's tenant requirements, and structuring loans with downside protection rather than reliance on future market expansion. Our platform's ability to operate across the capital stack and investment horizon allows us to address both near-term dislocations created by competitor retrenchment and longer-term structural opportunities as private markets continue to mature. In an environment where capital discipline is once again being tested, we believe real estate credit remains one of the most compelling opportunities for investors seeking income, resilience, and consistency.





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