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The Durable Income Opportunity: Real Estate Private Credit

Following a tumultuous, multi-year period characterized by the pandemic, the Federal Reserve's historic tightening cycle, its more recent easing, and the current geopolitical uncertainty, institutional investors are operating in a new normal. As a result, generating returns may be less dependent on dramatic interest rate movements or valuation expansion and more reliant on durable income with risk mitigation.

CIM believes that real estate private credit may be positioned to benefit from this market environment. Sitting within the $5+ trillion U.S. commercial real estate ("CRE") mortgage market, real estate private credit momentum has shifted to private lenders who are able to provide bespoke financing solutions to CRE sponsors with speed and certainty.[1] In turn, these directly originated loans may offer institutional investors attractive income and risk-adjusted return potential as well as diversification relative to public and other private market assets.

In the following, we seek to:

- **Define real estate private credit** and the investable areas within
- Discuss the **evolution of the market** and potential tailwinds **driving opportunity today**
- Identify segments we currently believe may offer **enhanced risk-adjusted return potential**
- Address real estate private credit's role within an overall portfolio context, especially as a **complement to corporate direct lending** and **real estate private equity**

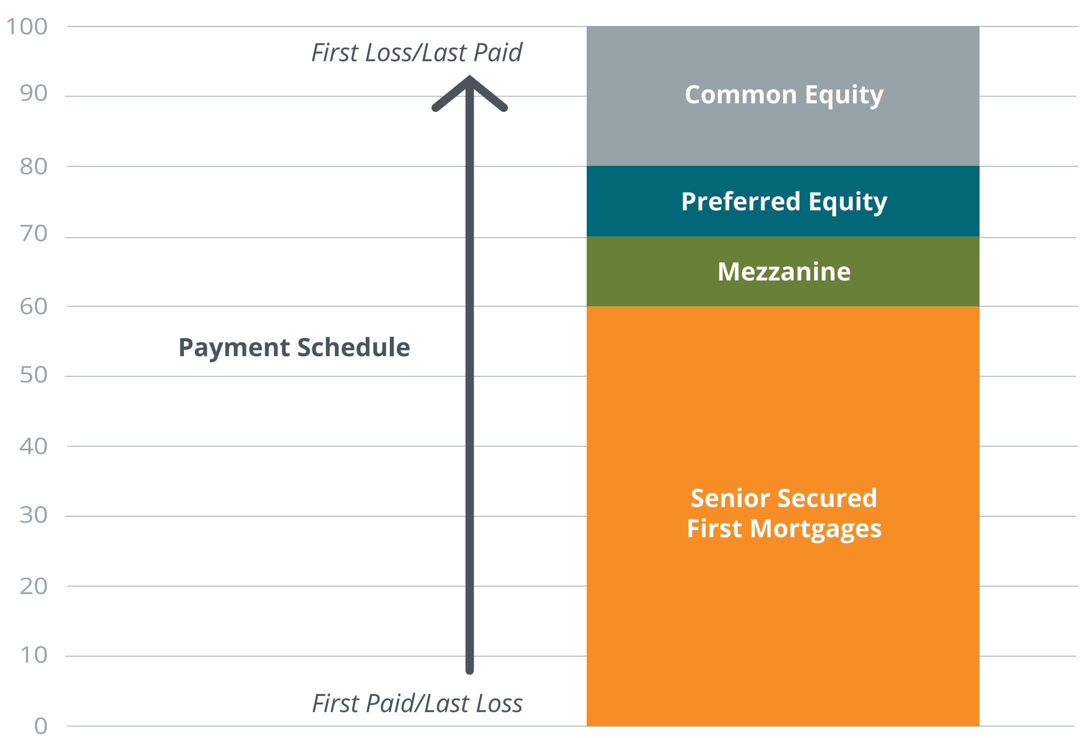
Investing in Real Estate Private Credit

Real estate private credit refers to non-public, directly originated debt—residing outside both publicly traded fixed income and bank balance sheet lending—that is generally secured by hard real estate assets. Loans are typically held to maturity, illiquid, and carry floating rate coupons, mitigating interest rate risk. Importantly, the strategy generally emphasizes contractual income and capital preservation, with downside mitigation driven by asset collateral, structural protections, and covenants.

Real estate private credit spans a broad risk/return continuum, allowing investors to calibrate income/return potential and risk across strategies, which include:

- **Senior Secured First Mortgages:** First-lien loans with priority claim in the capital stack and collateralized by hard real estate assets, which offer income potential with less risk relative to subordinated capital providers
- **Mezzanine Loans:** Subordinate to senior secured first mortgages and typically secured by equity interests in the borrowing entity, offering higher return potential with greater risk due to structural subordination
- **Preferred Equity:** Junior to all debt but senior to common equity, offering enhanced return potential with greater risk relative to mezzanine loans

Illustrative Capital Structure

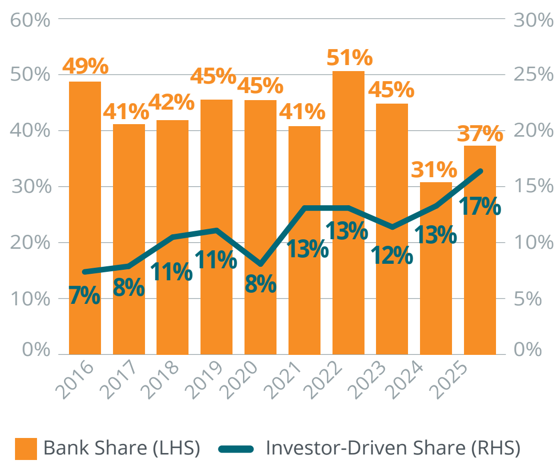


Source: CIM Real Estate Debt Solutions

Market Evolution and Potential Tailwinds

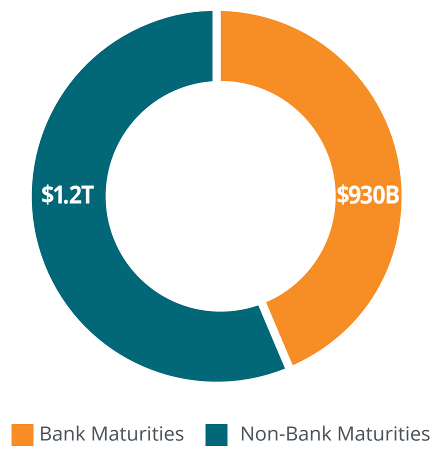
Since the Global Financial Crisis, the real estate private credit landscape has shifted materially. Historically dominated by banks, the post-crisis regulatory environment, including tighter risk-weighted capital requirements, has driven a structural transition in real estate (and corporate) lending towards private capital. This shift was further accelerated by the U.S. regional bank fallout in 2023 as banks continued to pull back from direct balance sheet lending. As a result, private lenders' share of CRE loan originations has more than doubled to 17% over the last 10 years, with potential for further increase as more than $2 trillion of CRE loans—nearly half of which were originated by banks[2]—are set to mature by 2030 and may need refinancing.

Investor Share of CRE Loan Originations has Increased 2.2x to 17% Since 2016



Source: MSCI Real Capital Analytics, as of 12/31/2025.

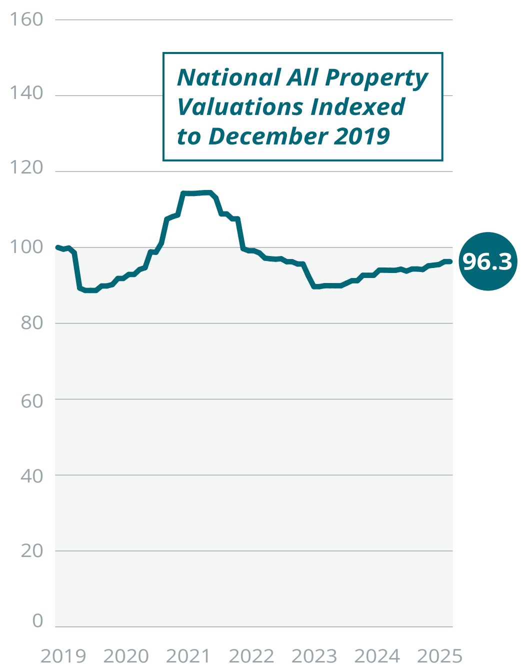
$2.1T CRE Loans Maturing by 2030 (43% Originated by Banks) Providing a Substantial Potential Opportunity Set



Source: MSCI Real Capital Analytics, as of 12/31/2025.

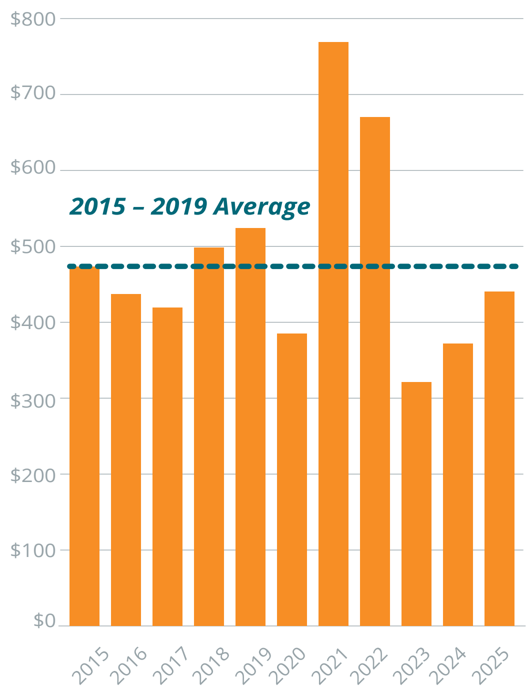
This positive backdrop may extend beyond a potential refinancing wave, given the improving acquisition picture supported by stabilizing interest rates and CRE property valuations. Over the past two years, the Federal Reserve has meaningfully retraced its historic 500+ basis point tightening cycle, resulting in materially lower front-end interest rates and long-term interest rates compared to cycle highs. As of February 27, 2026, one-month SOFR, the interest rate off which most floating rate real estate private credit is based, fell ~130 basis points relative to its peak, while the 10-year Treasury rate declined over 80 basis points. This easing of financial conditions has improved underwriting visibility and supported renewed buyer-seller engagement across CRE markets.[3] CRE valuations have broadly stabilized and now reside just ~4% below pre-COVID levels, although recovery has varied across asset types. Reflecting this restored confidence, CRE transaction volumes have increased ~37% from post-COVID lows[4] and are approaching pre-COVID averages.[5] While these encouraging trends have moderated due to recent geopolitical uncertainty, CIM believes they would likely resume if resolution were to come in relatively short order.

CRE Valuations have Stabilized and Improved towards Pre-COVID Levels



Source: Green Street Research, as of 12/31/2025.

Transactions up 37% off Post-COVID Lows, Approaching Pre-COVID Average



Source: MSCI Real Capital Analytics, as of 12/31/2025.

Potential Risk-Adjusted Return Opportunities within Liquidity-Constrained Segments

It is important to note that transaction momentum and the return of capital providers have been uneven. CIM has observed greater lender competition in more core / light transitional loan segments where underlying business plans typically include lease-to-stabilization strategies on well-maintained assets. This has been particularly apparent within multifamily and industrial sectors, which are generally viewed as having lower risk profiles. Such competition has driven spreads and unlevered yields down to SOFR + 225 basis points and ~6%, respectively.[6] Greater competition may also force participating lenders to potentially compromise on credit metrics (higher LTVs, lower equity cushions, and lower debt yields), employ a higher degree of financial engineering (e.g., back leverage) to achieve target returns, or accept fewer covenant protections.

By contrast, CIM believes under-subscribed, more liquidity-constrained segments of the market may allow disciplined private lenders to command more attractive spreads and unlevered yields, stronger credit metrics, and tighter covenants. As a result, these lending opportunities, especially via senior secured first mortgages, can offer the potential for risk-adjusted returns.

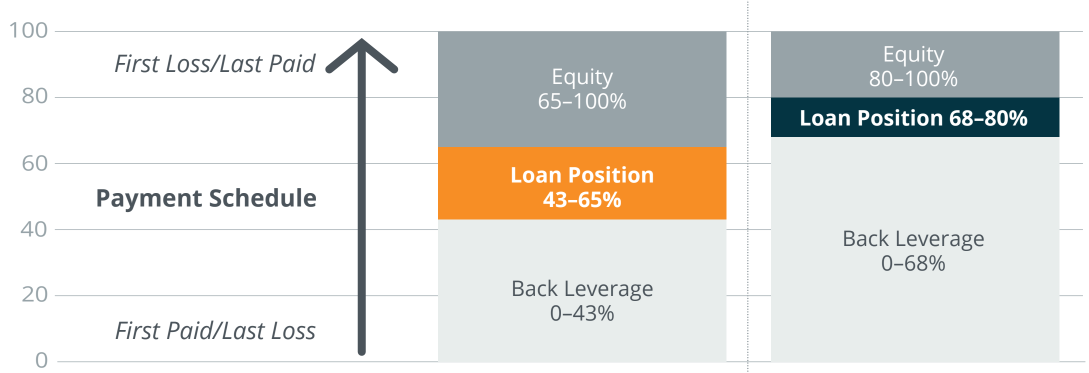
Senior Value-Add Lending

One attractive liquidity-constrained segment that CIM views as more evergreen in nature is senior value-add lending. These transactions typically include less lender competition as they involve underwriting "real estate-oriented" business plans driven by asset-level fundamentals—such as capital improvements, repositioning, or ground-up construction—rather than financial engineering. Such business plans can serve as a meaningful barrier to entry for lenders not resourced with in-house development and property management or leasing capabilities. As a result, we observe more limited lender competition within these deals, with typically one to five participants compared to 20-30 participants for core / light transitional deals. This dynamic may create opportunities for attractive returns, along with strong credit metrics and covenants.

The table below provides an illustrative example of such factors at play, comparing a senior value-add, office-to-multifamily conversion loan to a lease-to-stabilization multifamily loan. Due to lower competition, the senior value-add loan shown below offers 150-200 basis points of additional spread and unlevered yield with ~15% lower LTVs (and 15% higher equity cushions) on average, and requires materially less back leverage to achieve target returns (in this case 12%).[7] Importantly, the combination of a lower LTV and less back leverage may provide a more senior and thicker capital structure position, offering increased first loss absorption and enhanced risk-adjusted return potential.

Illustrative Example[8]	**Value-Add**	**Core, Light Transitional**
Business Plan	Redevelopment, Repositioning, Construction	Lease-Up to Stabilization
Property Type	Office-to-Multifamily Conversion	Multifamily
Typical Range of Competing Lenders	1-5	20-30
Spread / Coupons (Unlevered)	SOFR + 400 bps / 7.7%	SOFR + 225 bps / 6.0%
Loan-to-Value	65%	80%
Back Leverage Required to Earn Target 12% Levered IRR (Gross)[9]	67.5%	85.0%

Capital Structure



Senior Office Lending

Among the most attractive liquidity-constrained opportunities CIM sees today is senior secured first mortgage office lending. Like senior value-add lending, this segment has seen materially reduced lender participation following a significant reset in office property values. While multifamily and industrial valuations have largely recovered to pre-2019 levels, office valuations remain meaningfully dislocated—residing ~30-40% below 2019 levels. At the same time, traditional capital providers, including banks, mortgage REITs, and CMBS issuers, have materially reduced office lending activity by ~15% on average since 2019, creating a significant capital shortfall.[10]

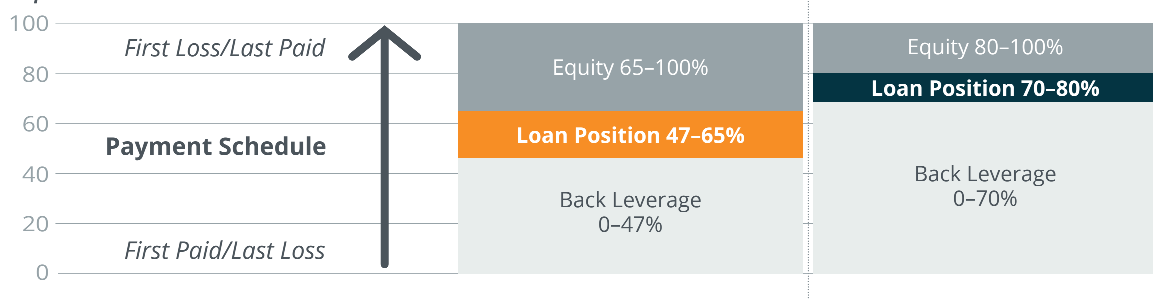
Meanwhile, office fundamentals have broadly begun to improve. Return-to-office mandates are increasingly prevalent, and leasing activity has rebounded ~2x off post-COVID lows.[11] Concurrently, supply has materially declined, with new office construction starts down ~90% from recent peaks and 2026 deliveries projected to fall to multi-decade lows.[12]

Opportunities are not uniform across the sector, emphasizing the need for market- and asset-specific sourcing and underwriting. Recovery is currently being led by newer, higher-quality assets, exhibiting ~40% lower vacancy rates on average relative to overall vacancy rates, and significant positive net absorption relative to older vintages.[13]

With the backdrop of reset valuations and a dearth of capital, senior lending opportunities on certain quality office properties and locations may offer historically attractive risk-adjusted return potential. Relative to core / light transitional multifamily loans, senior office lending opportunities may present spread and unlevered yield advantages of ~200+ basis points with 15% lower LTVs (and 15% higher equity cushions) on average, while requiring materially less back leverage to achieve target returns (in this case, 14%). We note the slightly higher allowance for back leverage relative to senior value-add lending, given the enhanced downside mitigation potential offered by the sector's significant reset bases.[14]

Illustrative Example[14]	Office	Multifamily
Typical Range of Competing Lenders	1-5	20-30
Spread / Coupons (Unlevered)	SOFR + 425 bps / 7.9%	SOFR + 225 bps / 5.9%
Loan-to-Value	65%	80%
2026 Property Value Relative to 2019[15]	-36.6%	+1.2%
Back Leverage Required to Earn Target 14% Levered IRR (Gross)[16]	72.5%	88.5%

Capital Structure

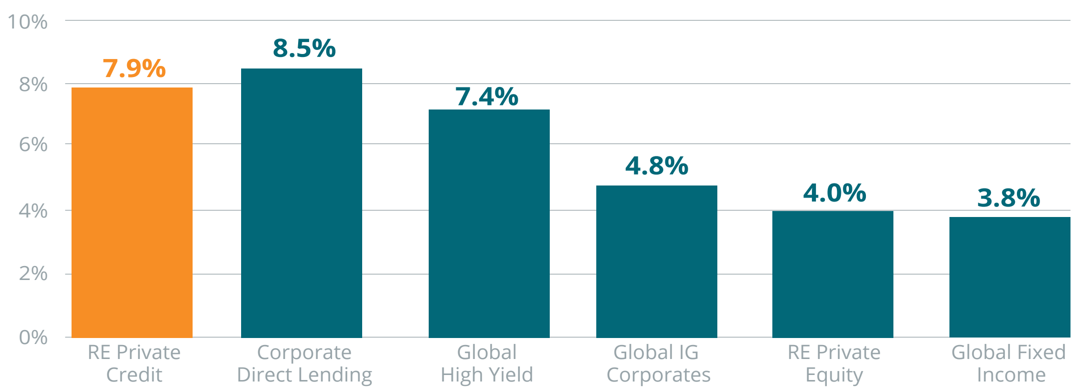


Illustrative examples to show general characteristics of the above credit segments as observed by the CIM Real Estate Debt Solutions team, as of 3/31/2026. Not indicative of any actual investment.

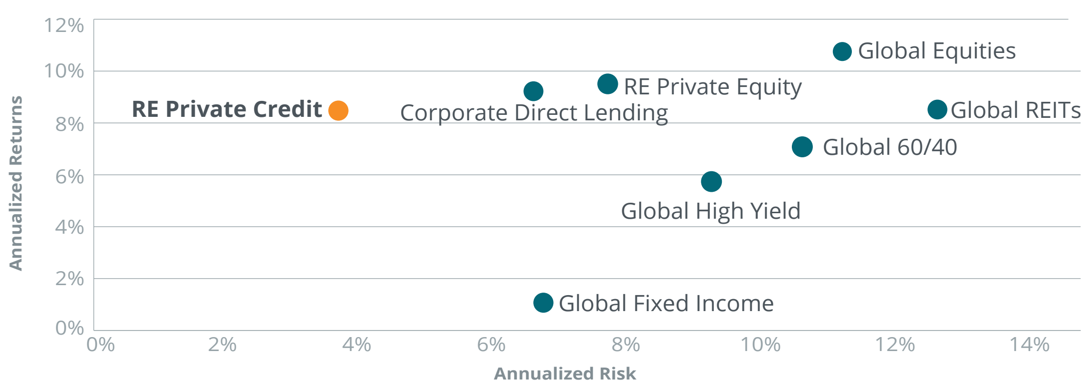
Real Estate Private Credit's Role Within Institutional Portfolios

Real estate private credit has historically offered attractive income potential and defensive risk characteristics—especially senior secured first mortgages, which hold senior claims in the capital structure and are secured by hard real estate assets—relative to other asset classes. Real estate private credit is currently generating an ~8% unlevered yield, exceeding that of traditional public credit markets, while exhibiting lower volatility.[17] Within an overall portfolio context, real estate private credit has also historically benefited institutional investors in terms of diversification, exhibiting only modest correlations to both public and private markets.

Attractive Relative Yield[18]



Attractive Historical Risk/Return Profile[19]



Modest Correlations to Public Market Asset Classes[20]

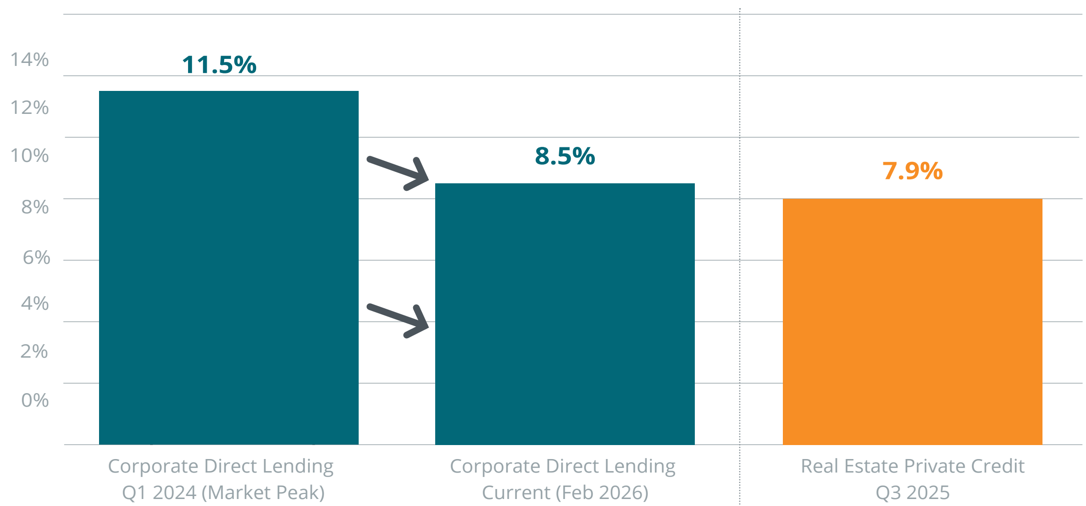
	Global Equities	Global Fixed Income	Global 60/40	Global High Yield
Real Estate Private Credit	0.37	0.00	0.32	0.41

Sources: Preqin, MSCI, and Bloomberg, as of 9/30/2025. Stated correlations are based on quarterly returns over the Q3 2010 to Q3 2025 period using the indices defined on page 12.

Complementing Corporate Direct Lending

Over the last 10 years, private credit capital formation has been concentrated in corporate direct lending with over $600 billion raised, as the asset class offered unlevered double-digit yields following the peak of the Federal Reserve's recent tightening cycle. However, these capital flows have required corporate direct lenders to keep deployment in pace with fundraising, all while experiencing renewed competition from the broadly syndicated loan market. These developments have resulted in spread compression and, along with lower base interest rates, corporate direct lending unlevered yields have normalized ~300 basis points to an ~8.5% context on average.

Corporate Direct Lending Spreads/Yields have Compressed, Real Estate Private Credit Yields Relatively Attractive

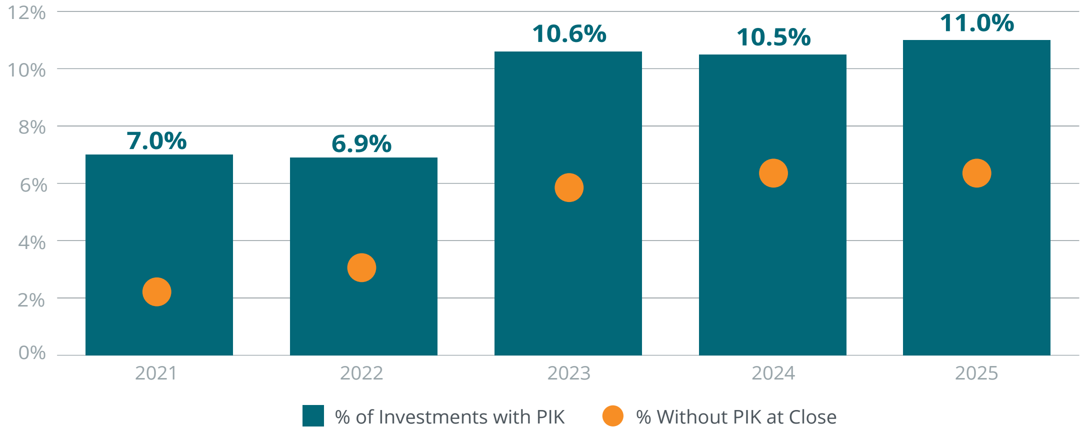


Aggregate Capital Raised (B)[21]	**$616.3**	**$216.3**
Current Dry Powder (B)[21]	**$174.2**	**$52.6**

Source: Lincoln International, NCREIF / CREFC

Further, it is acknowledged that corporate direct lending has yet to enter the later stages of its cycle. While corporate sectors and their constituents appear to remain generally healthy, some signs of structural risks are emerging. One trend observed has been the increase in investments featuring payment-in-kind (PIK) interest added after transaction close, which has risen from ~2% to ~6% in recent vintages.[22] While these developments may not necessarily call for broad deterioration in corporate direct lending, they do remind us of the importance of disciplined underwriting and diversification across credit-related investment strategies.

PIK Growth within Corporate Direct Lending[23]



Source: Lincoln International

In this context, real estate private credit has been comparatively under-allocated relative to corporate direct lending. Meanwhile, current real estate private credit yields are beginning to match corporate direct lending yields and the asset class has historically exhibited diversification characteristics for institutional portfolios. This may potentially help sustain income generation while mitigating downside risk.

Modest Correlations to Public Market Asset Classes and Corporate Direct Lending[24]

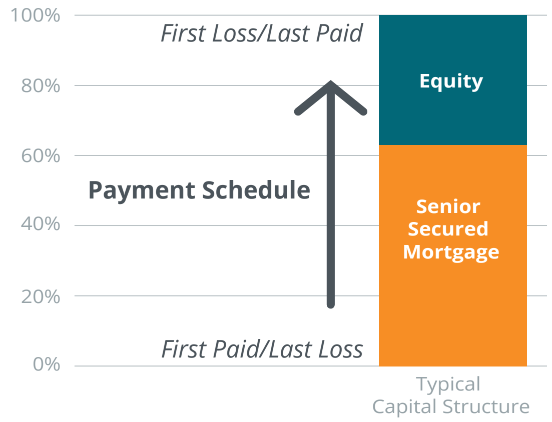
	Global Equities	Global Fixed Income	Global 60/40	Global High Yield	Corporate Direct Lending
Real Estate Private Credit	0.37	0.00	0.32	0.41	0.46
Corporate Direct Lending	0.55	0.03	0.48	0.53	1.00

Sources: Stated correlations are based on quarterly returns over the Q3 2010 to Q3 2025 period using the indices defined on page 12.

Complementing Real Estate Private Equity

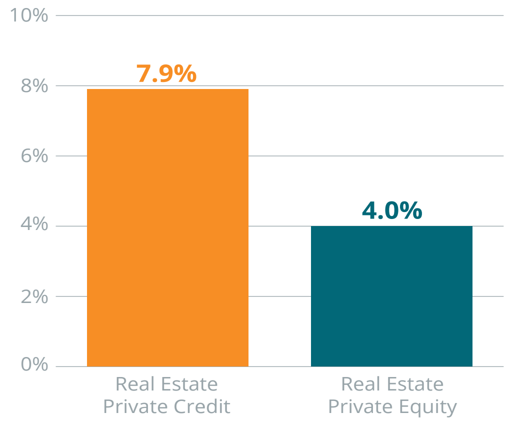
Within institutional portfolios, real estate private credit may also complement real estate private equity allocations by occupying a structurally senior position in the capital stack while delivering higher current income, allowing allocators to maintain real asset exposure with materially lower volatility and capital risk. Senior secured first mortgages benefit from equity absorbing first loss, while lenders receive priority payments and have contractual protections. In this context, real estate private credit may serve as an effective risk-control and income-stabilization lever within portfolios while providing exposure to real assets.

Real Estate Private Credit is Typically Senior Secured in the Capital Structure with Equity Absorbing First Loss



Source: CIM Real Estate Debt Solutions

Real Estate Private Credit Typically Offers Materially Higher Income Potential (Unlevered Yields Below)[25]



Source: NCREIF / CREFC

Real Estate Private Credit Today

CIM believes that real estate private credit is well-positioned for the future, supported by the continued financing void left by banks on the supply side, as well as the significant refinancing needs and acquisition momentum on the demand side. These conditions may create unique and attractive opportunities, especially for senior lending opportunities within liquidity-constrained areas of the CRE market. Informed by prior cycles and reinforced by today's market structure, increasing exposure to high-quality real estate private credit may offer institutions the potential for durable income, downside risk mitigation, and ultimately, risk-adjusted returns.

When selecting an investment partner, we believe investors should consider managers with senior lending experience through various market cycles. Key differentiators include deep, long-standing borrower relationships that drive proprietary deal sourcing; disciplined underwriting anchored in real estate risk (not financial engineering); and a track record of delivering returns supported by strong credit metrics and protective covenants.

Managers with vertically integrated platforms—including in-house development, property management, leasing and capital markets capabilities—may be better positioned to provide real-time insight into potential transactions and collateral performance of existing deals, while proactively managing credits across the full lifecycle, including potential workouts. These capabilities serve as critical components for translating today's opportunities into durable, risk-adjusted returns over capturing transient yield.

Footnote Disclosures

1. Mortgage Bankers Association Report, data as of 12/31/25.
2. MSCI Real Capital Analytics, as of 12/31/2025.
3. Bloomberg, as of 2/27/2026.
4. Green Street Research, as of 12/31/2025.
5. MSCI Real Capital Analytics, as of 12/31/2025.
6. Based on illustrative examples (chart shown) to show general characteristics of the above credit segments as observed by the CIM Real Estate Debt Solutions team, as of 3/31/2026. Not indicative of any actual investment.
7. Illustrative examples to show general characteristics of the above credit segments as observed by the CIM Real Estate Debt Solutions team, as of 3/31/2026. Not indicative of any actual investment.
8. Illustrative examples to show general characteristics of the above credit segments as observed by the CIM Real Estate Debt Solutions team, as of 3/31/2026. Not indicative of any actual investment.
9. Target investment-level IRR (gross) is assuming stated loan level leverage dependent of the loan type and business plan, and does not account for Fund level expenses, management fee and promote. Assumed financing spread for Value-Add is S+225bps and for Multifamily is S+140bps. No guarantee that objectives will be met.
10. Green Street Research, as of 12/31/2025.
11. JLL Research, as of 12/31/2026. MSCI Real Capital Analytics, as of 12/31/2025.
12. CBRE Research, as of 12/31/2025.
13. JLL Research, as of 12/31/2025.
14. Illustrative examples to show general characteristics of the above credit segments as observed by the CIM Real Estate Debt Solutions team, as of 3/31/2026. Not indicative of any actual investment.
15. Green Street Research, as of 12/31/2025.
16. Target investment-level IRR (gross) is assuming stated loan level leverage dependent of the loan type and business plan, and does not account for Fund level expenses, management fee and promote. Assumed financing spread for Office is S+225bps and for Multifamily is S+140bps. Past performance is no guarantee of future results, and no guarantee that objectives will be met.
17. Latest available yields across asset classes. Source: Bloomberg, Lincoln International, NCREIF / CREFC. Global High Yield, Global IG Corporates, Global Fixed Income, RE Private Equity yields as of 3/31/2026. Corporate Direct Lending yield as of 2/12/2026. RE Private Credit yield as of 9/30/2025.
18. Latest available yields across asset classes. Source: Bloomberg, Lincoln International, NCREIF / CREFC. Global High Yield, Global IG Corporates, Global Fixed Income, RE Private Equity yields as of 3/31/2026. Corporate Direct Lending yield as of 2/12/2026. RE Private Credit yield as of 9/30/2025.
19. Source: Preqin, MSCI, Bloomberg. 15-year annualized returns and standard deviations as of 9/30/2025. Indices defined on page 12.
20. Sources: Preqin, MSCI, and Bloomberg, as of 9/30/2025. Stated correlations are based on quarterly returns over the Q3 2010 to Q3 2025 period using the indices defined on page 12.
21. Source: Preqin, as of 12/31/2025. Aggregate capital raised is over 10-year period ending 12/31/2025, current dry powder is as of 12/31/2025.
22. Lincoln International, as of 12/31/2025.
23. PIK refers to Payment-In-Kind.
24. Stated correlations are based on quarterly returns over the Q3 2010 to Q3 2025 period using the indices defined on page 12.
25. Latest available yields. Source: NCREIF / CREFC. RE Private Equity as of 3/31/2026. RE Private Credit yield as of 9/30/2025.

Disclosure

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Definitions

Index Performance: Index performance is shown for illustrative purposes only as (i) all indices referenced are unmanaged, (ii) index performance does not reflect the expenses associated with active management of an actual portfolio, (iii) investors cannot invest directly in an index. The current performance may be lower or higher than performance data quoted.

Global Equities: MSCI ACWI Index, a global equity benchmark representing large- and mid-cap stocks across developed and emerging markets, covering approximately 85% of the global investable equity universe.

Global Fixed Income: Bloomberg Global Aggregate Index, a multi-currency benchmark measuring the global investment-grade bond market. The index includes fixed-rate treasury, government-related, corporate, and securitized securities from both developed and emerging markets issuers and is rated investment grade (Baa3/BBB-/BBB- or higher) based on the middle rating of Moody's, S&P, and Fitch.

Global High Yield: Bloomberg Global High Yield Index, a multi-currency benchmark measuring the global high-yield corporate bond market, comprising the Bloomberg U.S. High Yield, Pan-European High Yield, and Emerging Markets Hard Currency High Yield sub-indices. The index includes fixed-rate securities rated Ba1/BB+/BB+ or below based on the middle rating of Moody's, S&P, and Fitch.

Global REITs: MSCI Global REIT, a global equity benchmark measuring the performance of listed equity real estate investment trusts (REITs) across developed and emerging markets worldwide. The index includes large- and mid-capitalization securities classified as Equity REITs under the Global Industry Classification Standard and is free-float-adjusted and market-capitalization weighted.

Corporate Direct Lending: Preqin Direct Lending Index, a private markets benchmark measuring the performance of private debt funds pursuing direct lending strategies, based on fund-level net returns reported to Preqin. The index is constructed using cash-flow and valuation data from private funds and is designed to represent the global direct lending market, calculated on a time-weighted return basis.

Private Real Estate: Preqin Core Real Estate Index, a private markets benchmark measuring the performance of private real estate funds pursuing core strategies, based on fund-level net returns reported to Preqin. The index is constructed using cash-flow and valuation data from private real estate funds and is designed to represent the global core real estate market, calculated on a time-weighted return basis.

Private Real Estate Credit: Preqin Real Estate Debt Index, a private markets benchmark measuring the performance of private real estate debt funds, based on fund-level net returns reported to Preqin. The index is constructed using cash-flow and valuation data from private real estate debt funds and is calculated on a time-weighted return basis.

Global 60/40: weighted quarterly returns of the Global Equities (60%) as represented by the MSCI ACWI Index and Global Fixed Income (40%) as represented by the Bloomberg Global Aggregate Index.

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