

TAILORING INSURANCE INVESTMENTS

INSURANCE SOLUTIONS THROUGH THE CONTINUUM OF REAL ESTATE CREDIT



Insurers have increased their commitments to private credit in search of higher yields and enhanced diversification beyond traditional credit assets. However, much of this capital remains uninvested, and insurers must explore a broad menu of private credit options—each with their own liquidity and risk-return characteristics—to identify those that best align with their investment objectives and liability profiles.

A global survey of insurance investment managers in 2025 found that 46% ranked real estate credit among the top three private asset classes most likely to experience the largest increase in allocations over the ensuing 12 months.¹ Although corporate debt and other investments have drawn considerable attention amid heightened interest in private credit, private real estate credit can be equally appealing for insurers seeking yield alongside targeted exposures that align with their liability structures, capital efficiency goals, and long-term portfolio resilience. The continuum of real estate credit can therefore aid insurers in achieving their portfolio objectives.

Despite this growing interest, real estate credit is still often perceived as a “niche” allocation, an assessment that understates both its relevance in institutional portfolios and its overall scale. In the U.S. alone, outstanding commercial real estate debt totals approximately \$5 trillion,² compared to roughly \$12 trillion outstanding in the U.S. corporate bond market.³ Yet real estate credit is frequently treated as a homogeneous asset class, a misconception that each market downturn repeatedly disproves. In reality, performance across real estate credit

is differentiated by property type, position in the capital structure, geography, and sponsorship quality. Cyclical stress tends to expose this dispersion rather than negate it, underscoring the importance of underwriting expertise and structure. Recognizing this heterogeneity is foundational to understanding why real estate credit functions as a continuum of risk and return, rather than a single allocation decision.

Current market dynamics have created an attractive entry point, with potentially elevated buy-in yields driven by commercial real estate prices resetting approximately 25% since mid-2022. This reset differs from other credit strategies and dovetails with expectations of improving credit profiles amid prospective growth in valuations.

As central banks adopt a more accommodative stance, property values are poised for a recovery following the reset across sectors including office and retail. Office usage has stabilized, retail has recalibrated, and valuations in some segments remain discounted. As property values trend upward and downside risks moderate, the market may create a more stable backdrop for private commercial real estate credit strategies (Exhibit 1).

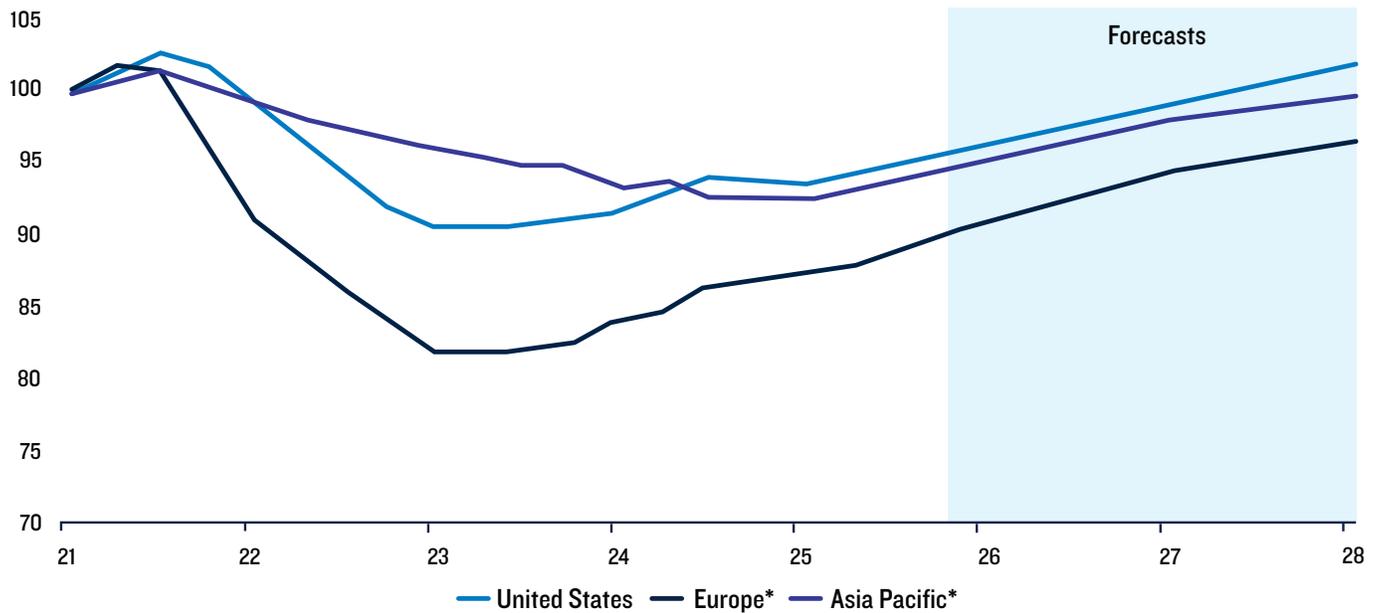
¹ Ortec Finance (2025). Insurers boost private assets allocations as capital increases. <https://www.ortecfinance.com/en/about-ortec-finance/news-and-events/press-release-insurers-boost-private-assets-allocations-as-capital-increases>. Accessed November 2025.

² Mortgage Bankers Association (2025). Commercial and Multifamily Mortgage Debt Outstanding Increased in Third-Quarter 2025. www.mba.org/news-and-research/newsroom/news/2026/01/13/commercial-and-multifamily-mortgage-debt-outstanding-increased-in-third-quarter-2025. Accessed November 2025.

³ SIFMA (2025). US Corporate Bonds Statistics. www.sifma.org/research/statistics/us-corporate-bonds-statistics. Accessed Dec 2025.

Exhibit 1: Strengthening Fundamentals Reduce Downside Risk

Capital Value Index (100 = December 31)



Forecasts are not guaranteed and may not be a reliable indicator of future results

*Note: Europe comprises Austria, Belgium, Denmark, France, Germany, Ireland, Italy, Netherlands, Poland, Spain, Sweden and the United Kingdom. Asia Pacific comprises Australia, China Hong Kong, Japan, Singapore and South Korea.

Sources: PGIM. As of November 2025.

This moment in the cycle provides insurers with a strategic opportunity to reassess and potentially increase real estate credit in their portfolio allocations. With valuations reset and fundamentals clearer, insurers may be able to deploy capital with greater confidence, particularly where pricing dislocation may offer attractive risk-adjusted yields.

THE REAL ESTATE CREDIT CONTINUUM

Private real estate credit spans a broad array of segments and structures, each offering distinct risk-return profiles and regulatory advantages.

Commercial Mortgage Loans (CMLs)

Within the commercial mortgage sector, several distinct categories offer differing yield, duration, and capital efficiency attributes for insurance investors:

- **Investment-grade commercial mortgage loans:** Focus on stabilized, high-quality assets to provide core stability with lower capital charges.
- **Transitional CMLs:** Target properties undergoing repositioning, refurbishment, or expiring leases, offering higher yield potential through floating-rate structures with the ability to use back leverage to enhance returns.
- **Real Estate Credit Solutions:** Provide enhanced return potential through lending on value-add assets with use of leverage or subordination to drive returns while maintaining structural debt provisions.

RELATED LENDING ASSETS

Agriculture Debt has historically provided stable, income-oriented returns through loans secured by farmland and agricultural operations, benefiting from low correlation to the Bloomberg U.S. Aggregate Bond Index, strong collateral fundamentals, and favorable U.S. risk-based capital treatment.

Exhibit 2: Commercial Mortgage & Specialty Lending Sector Snapshot

Sector	Fixed or Floating	Typical Spread Range	Common NAIC U.S. Designations*
IG CMLs	Fixed	150-190 bps	CM1 / CM2
Transitional CMLs	Floating	295-325 bps	CM2 / CM3
Real Estate Credit Solutions	Fixed and Floating	650-1300 bps	CM3 / CM4 / CM5
Agriculture Debt	Fixed	200-350 bps	CM1 / CM2

Source: PGIM, as of December 31, 2025. For illustrative purposes only.

Residential Mortgage Loans (RMLs)

In addition to the commercial market, residential mortgage loans (RMLs) have emerged as a scalable institutional asset class. For insurers, RMLs provide a granular alternative to CMLs, often offering more standardized structures but with similar or superior capital efficiency benefits.

Within the residential continuum, insurers are usually targeting several key segments:

- **Prime Jumbo Loans:** High-quality, larger-balance loans that exceed conforming limits, offering higher long-term yields with lower default risk.
- **Non-Qualified Mortgages (Non-QM):** A mature segment delivering a meaningful yield premium over agency paper while maintaining near prime credit standards.
- **Debt-Service Coverage Ratio (DSCR) Loans:** These loans focus on the cash flow of the property rather than personal income, aligning well with an insurer's focus on fundamental property performance.
- **Re-Performing Loans (RPL):** Consist of previously delinquent loans where the borrower has resumed on-time payments, offering attractive yields and seasoned credit history.

DIFFERENTIATORS IN REAL ESTATE CREDIT

Across the real estate credit continuum, the direct origination model is one of the most appealing ways for institutional investors to gain exposure. Investors will find that working with managers who source debt through proprietary origination networks—granting them the ability to customize loans, build closer relationships with borrowers, and develop local market expertise—can help make portfolios more resilient through market cycles and idiosyncratic developments.

Furthermore, real estate credit is fundamentally distinguished from other forms of credit assets, such as investment-grade corporate bonds, due to its tangible collateral, providing a potentially increased level of capital preservation.

Beyond traditional real estate, agricultural finance is a segment that remains underutilized despite its attractive spread characteristics and favorable capital treatment in the U.S. Agricultural debt also has the potential to offer an exposure that aligns well with insurers seeking diversification in a multi-asset portfolio, low correlation to both stocks and bonds, steady income streams, and potential tax benefits. For example, a typical portfolio of agriculture loans might contain 70% CM1s and 30% CM2s, with the portfolio yield approximately that of a

*Designations reflect the National Association of Insurance Commissioners' (NAIC) risk-based capital categories for commercial mortgage loans. CM1 denotes the lowest expected credit risk and capital charge, with increasing levels of risk assigned through CM5. Designations are based on contemporaneous loan-to-value ratios, debt-service coverage, and expected probability of default and loss severity.

CM2 portfolio. Yet few firms have meaningfully tapped into this asset class. Amid technological advances in farming that require sizable investment, agricultural finance is likely to continue growing as an institutional asset class.

Managers with strategies across Investment Grade, Transitional and Credit Solutions can drive a differentiated deal flow given the unique ability to be a solutions provider for borrowers. In addition, managers that have integrated capabilities spanning both real estate credit and equity, with their specialized knowledge of property operations and valuation, could offer competitive advantages, particularly during underwriting as well as borrower stress scenarios when operating an asset may become necessary.

IMPLICATIONS FOR INSURANCE PORTFOLIOS

Compared to corporate credit allocations, private real estate credit may have the potential to provide differentiated benefits to insurance portfolios in yield and capital efficiency, regulatory treatments, duration, and liquidity. For instance, transitional CMLs are a growing

opportunity from a yield and capital efficiency perspective. With their low correlation to traditional asset classes, transitional CMLs also can be used as a diversifier in existing credit portfolios, given their distinct risk-return profile and sensitivity to real estate fundamentals.

Transitional CMLs are typically internally rated BB+ and designated either CM2 or CM3 loans based on NAIC standards in the U.S. (Exhibit 2). These investments may be especially appealing for Bermuda-based insurers with U.S. tax-paying entities due to potentially favorable risk-based capital treatment. With Bermuda Solvency Capital Requirement charges near 5%, compared to roughly 8% for BB-rated private corporate bonds, transitional CMLs represent efficient yield per unit of regulatory capital. This relative attractiveness applies in the U.S. as well.⁴

Like private real estate credit, insurers are not a homogenous group. Among life insurers, CMLs could be preferred due to their yield enhancement and RBC efficiency, while P&C insurers might find transitional CMLs appealing for their shorter-duration structures to manage liability matching.

Through the continuum of real estate credit, insurers can capture relative value, low correlation to other asset classes, and potentially greater capital efficiency to better align their allocations with risk and return objectives. Accounting for regulatory requirements, potential liquidity constraints, structural protections, property fundamentals, and variations in local market dynamics will guide investors as they reinstitute real estate credit into their portfolios.

⁴ Source: PGIM and National Association of Insurance Commissioners (NAIC). As of December 31, 2025.

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