

Gaining ground

Private credit carves out a better foothold in commercial real estate financing markets

by Beth Mattson-Teig





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Michael Lavipour
Affinius Capital

Private capital lenders that stepped into the market to provide needed liquidity are becoming increasingly entrenched as key players in commercial real estate financing.

Debt funds and other investor-led groups are well funded, and they are expanding their reach across a variety of debt strategies and grabbing a bigger share of the overall financing market. “We have seen a pretty rapid shift and expansion in the real estate private credit space since 2020. Specific to real estate, many shops have raised and/or grown debt funds, ourselves included,” says Jaime Zadra, a managing director within PGIM’s real estate business.

Initially, private capital was focused primarily on providing short-term bridge loans. But when the banks pulled back in 2022, it created a void in the market that debt funds and private capital lenders moved into. “We have seen a lot of investment managers that already had a flag planted expand, and we have seen new entrants come in to try to capitalize on that void left by the banks,” says Zadra.

It is difficult to quantify the volume of private credit flowing into commercial real estate financing due to the cross-pollination between different capital sources. According to MSCI, loan originations from investor-driven lenders have been

on an upward trend that began before the COVID-19 pandemic. Investor-driven lenders accounted for 14 percent of loan origination volume during the first half of 2025 — up from 11 percent for the same period of 2024 and the 9 percent annual average between 2015 and 2019.

Anecdotally, market participants agree that the role of private credit in commercial real estate financing has grown in size and scope, and they also see plenty of runway to expand in the nearly \$4.8 trillion U.S. mortgage market.

“The better private credit players out there are really changing what they are doing,” says Michael Lavipour, senior managing director and head of lending at Affinius Capital. More lenders are creating a “mousetrap-like” origination funnel to capture inflows from various sponsors and relationships, and then converting those allocations into the right risk strategy, he adds.

Affinius Capital is investing across the risk spectrum on behalf of different capital sources that do not have the in-house capabilities, including mandates in separate accounts for insurance companies and other private organizations. The investment management firm has also taken on accounts for insurance companies that do originate directly but want to achieve a higher volume.

Advancing into the void

The traditional hallmark of private capital lenders is that they have targeted areas of the market where liquidity is constrained. A big focus these days is meeting demand coming from the wall of maturities. Borrowers who are sitting on a maturing loan that originally financed at a rate between 2

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percent and 3 percent are now facing rates between 5 percent and 6 percent — or higher depending on the type of loan. “I would not necessarily call that rescue capital, but the market certainly needs lenders to come in and take a higher loan-to-value position to allow owners to preserve those deals,” says Zadra. About 75 percent of the loans PGIM’s real estate business originated through its debt fund in the past year involved refinancing.

Affinius Capital has also been active, providing new financing for 2021- and 2022-vintage acquisition loans in the multifamily and industrial sectors

that were originally done at peak market valuations. Many of those deals were originally financed with floating-rate debt that is more difficult to take out with bank financing due to the higher leverage needed following asset repricing.

In contrast, there is plenty of liquidity in the bridge lending space for cash-flowing asset strategies. Borrowers looking for financing on cash-flowing deals are likely to get bids from 30 or more lenders. Although deals that are more opportunistic in nature have become more competitive, including from new hedge fund entrants, the opportunistic segment of the market is still much less crowded.

“We have had a very busy queue since September, mostly because of the initial rate decline,” says Sebastian Post, managing director and co-head of investments at Lionheart Strategic Management. “I think people are getting more bullish about rates falling.” Lionheart provides short-term bridge loans, and the firm is seeing demand coming from a mix of multifamily projects, including new ground-up construction, office-to-residential conversions and acquisitions of stalled developments.

Lionheart also sees potential market dislocation emerging around the data center boom. “There is a significant amount of money being pulled out of the banking system only for data centers,” says Post. That demand is creating more open space for private lenders to step into, he adds. For example, *Bloomberg News* reported in 2025 on a deal where a consortium of 20 banks funded an \$18 billion loan for a new data center campus in New Mexico.

Plenty of dry powder

One of the big drivers behind the boom in private credit lending is the dry powder raised in recent years. Capital has been flowing into private debt vehicles from investors who are attracted to the risk-adjusted returns. Investors want to generate higher returns, and they like the attachment point that being in the debt portion of the capital stack provides.

That security became even more desirable in the higher rate environment where equity investors saw gains deteriorate amid falling values. Even a mezzanine loan at 85 percent loan-to-value has some equity buffer, and that mezzanine position could yield a 12 to 14 percent return.

“Last year might have been the biggest year we have had as an industry in terms of capital raising,” says Michael Lavipour of Affinius Capital. In addition, life insurance companies have significant capital to put to work because they are selling more annuities in the higher interest rate environment. “When you couple that with payoffs in the portfolio that create recyclable capital for many private credit players, there is a lot of dry powder,” he adds.

A three-way front

While some private lenders are active across the entire capital stack, others are focusing on a specific niche. Those different perspectives also influence where private capital sees opportunities — and challenges — in a market where transaction activity is more muted.

“We see a trifurcation in the commercial real estate debt markets today,” says David DesPrez, a partner on the special situations team at Bain Capital. The “bullseye” of the market, ranging between \$50 million and \$150 million in loan size, is highly competitive, due largely to the significant amount of debt fund and private capital entering or reentering the space. In contrast, there appears to be less liquidity at the higher and lower ends of the market, below \$50 million and above \$150 million.

Bain Capital’s special situations team is focused on the bookends — the higher and lower ends of the market — where it sees less competition and more compelling relative value. Multifamily and residential loans below \$50 million are especially attractive, as small and regional banks have pulled back on liquidity.

On the large loan side, Bain Capital is primarily focused on loans to high-quality private equity sponsors and assets with significant in-place cash flow, including in retail, hospitality and office on a select basis. For example, Bain's special situations team and Smith Hill Capital provided \$216 million in refinancing for the Westin Grand Central in New York City last fall.

Matan Kurman, head of investments at S3 Capital, sees a more bifurcated market. The transitional lender provides construction and bridge loans for multifamily assets. The firm primarily targets middle-market loans in the \$50 million to \$150 million range, while offering a broad range of financing solutions from \$1 million up to \$300 million. Since the start of the year, the firm has seen heightened competition for loans at the upper end of this range, but still sees healthy deal flow for smaller and midsize loans.

Multifamily construction starts have slowed, particularly in the Sun Belt, due to higher levels of new supply. "With absorption starting to turn positive, and the Federal Reserve lowering interest rates, we anticipate an uptick in the flow of opportunities in early 2026," says Kurman.

Battleground bids

Although there are always outliers struggling to find capital, the reality is that there is good liquidity across the spectrum of capital sources — private credit, REITs, life insurance companies, CMBS and the agencies, as well as banks that are lending both directly and indirectly to commercial real estate.

"Deal flow is pretty solid, but it is so competitive right now, and I think it is going to stay that way for the foreseeable future," says Zadra. "It does not matter what strategy it falls into for us; there are multiple players — and many brand names that have good relationships — that are showing up to bid on every deal."

Borrowers are benefiting from fierce competition that is giving them more options, compressed spreads and favorable terms. Depending on the property type and strategy, spreads have narrowed between 25 basis points and 100 basis points this year.

Full-term interest-only loans that were previously only found in the bridge lending space are now available in almost every situation, including core loans that were never full-term IO in the past.

The attachment points have also moved up on loan-to-value in the core lending space, while yields have moved down. "Structure, by and large, has been eroded, including in the bridge space, on everything from where we can set our secured overnight financing rate [SOFR] floor to the ability

to capitalize our debt service and our leasing reserves appropriately," says Zadra.

From the beginning of 2024 to the middle of 2025, there was not enough liquidity in the market, notes Kurman. "We saw a significant increase in construction lending opportunities due to the retrenchment of regional banks," he says. Now S3 Capital is seeing more competition for the take-out of its construction loans, with pricing that has gone from 350 basis points over SOFR a year ago to 225–250 basis points today. "Most new private

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Guarding the advance

Debt funds and investor-driven lenders have a reputation for providing more aggressive financing. According to MSCI, investor-driven financing surged in the apartment and industrial sectors in particular during the first half of 2025, with lending volume that nearly doubled from same period in 2024. Data shows that those investor-driven lenders also increased loan-to-value ratios by more than 400 basis points in both property sectors.

The question this raises is whether private debt may be raising market risk along with those higher leverage levels. "Broadly speaking, I do not think people are doing inappropriate things or pushing the credit envelope too much," says Lavipour. "But I do think the abundance of liquidity probably delays an ultimate price recalibration, which would be really healthy for the market."

More deal flow would help to alleviate some of the competitive pressure, and some lenders are optimistic that both acquisition and construction activity will accelerate in 2026. "Because there is so much liquidity, the market as a whole would benefit from seeing more transactions," says Zadra. "I think we are all hoping that trades start to pick up in 2026." ♦

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