INVESTMENT RESEARCH

2025 SPOTLIGHT ON PRIVATE CREDIT

Resilient Income Amid Market Uncertainty

JULY 2025

PRIVATE CREDIT 2025 KEY TAKEAWAYS:

1 THE TIME IS STILL NOW.

Against an uncertain backdrop, global real estate credit may offer resilient income with downside protection supported by attractive yields and conservative loan metrics, at an attractive entry point.

2 INVESTORS NEED TO ADAPT.

Private commercial real estate (CRE) credit is adapting to a broad array of public and private credit offerings, while the evolution of lender composition continues.

3 THE OUTLOOK VARIES BY GEOGRAPHY.

While global CRE debt markets face common structural pressures, there are regional differences – asset and market selection are key drivers of performance.

Heightened uncertainty is weighing on the near-term outlook for global real estate markets, but it has not derailed the **RECOVERY** and **GROWTH** story.

PART I

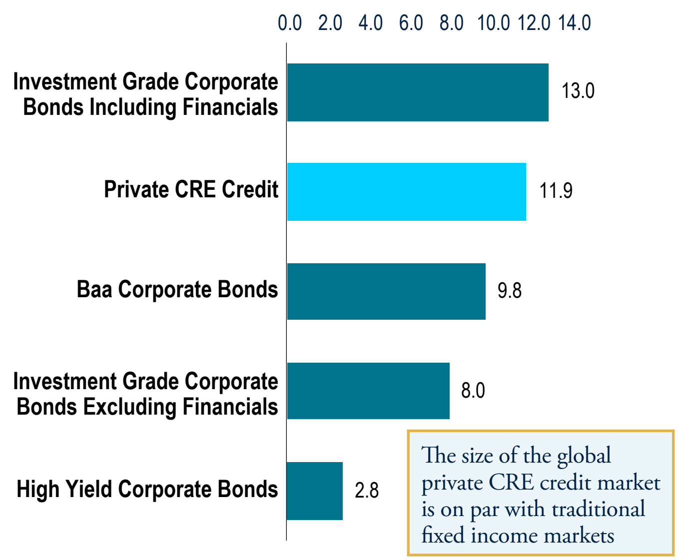
PRIVATE CREDIT OVERVIEW

Staying the Course

While heightened uncertainty constrains near-term capital flows, elevated yields, strong credit fundamentals and an improving real estate market continue to provide opportunities with attractive investment prospects for private credit.

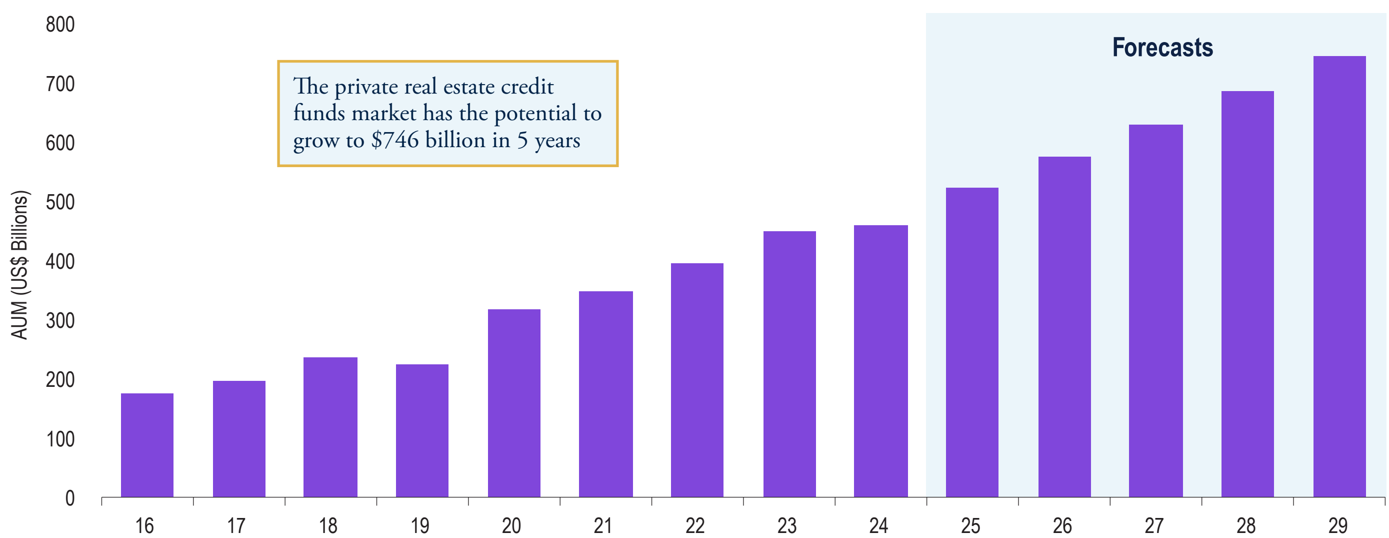
- Market volatility has increased, driven by shifting macro headlines. In the near term, this will slow capital deployment but the underlying investment thesis for private CRE credit remains intact.
- While short-term volatility will persist, market fundamentals remain sound; we believe policy rates will ease but stay above prior-cycle lows; and real estate is broadly at fair value,[1] helping to anchor prices and reduce downside risk.
- The investment backdrop for private CRE credit remains supportive. Elevated yields, solid credit fundamentals and an improving real estate market enhance the forward return potential of these strategies.
- Liquidity is broadly back, with greater lender participation helping to stabilize pricing and support a healthier lending environment going forward.
- With the global CRE debt market now estimated at $11.9 trillion – on par with traditional fixed income – investor attention is growing. Private credit funds are scaling rapidly to meet this demand, with real estate debt funds AUM expected to reach $746 billion in 5 years.

GLOBAL DEBT OUTSTANDING ($ TRILLIONS)



As of end 2024. The private CRE credit market is estimated from multiple data sources.
Sources: Bloomberg, Cushman & Wakefield, MSCI, Mortgage Bankers Association, Bayes Business School, ECB, APRA, IREBS, IEIF, PGIM Real Estate. As of June 2025.

GLOBAL PRIVATE CRE CREDIT FUNDS AUM



Data refers to non-listed real estate debt vehicles.
Sources: ANREV, INREV, NCREIF, PGIM Real Estate. As of June 2025.

[1]PGIM Real Estate *2025 Global Outlook: Generating Resilient Income Growth Amid Uncertainty*, May 2025.

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

Global Drivers, Regional Nuances

While global CRE debt markets face common structural pressures, regional regulation and bank behavior define distinct opportunity sets.

COMMON GLOBAL THEMES

1. Traditional banks remain focused on lower-risk lending and are debt service constrained, creating a structural funding gap.
2. Need for higher-leverage financing solutions to bridge the gap between senior lending levels and sponsor requirements.
3. Elevated loan maturities drive sustained demand for refinancing capital, particularly as legacy bank-held loans come due.
4. Demand for capital to support value-add strategies, asset repositioning and ESG-driven upgrades across outdated or undersupplied stock.
5. Debt is becoming accretive again, helping to unlock transactions and expand financing opportunities across the capital stack.

UNIQUE REGIONAL THEMES

Structural shifts are reshaping real estate capital markets for the long term. But these changes are not happening at the same pace everywhere, which means opportunity will show up differently across markets.

UNITED STATES

Most diverse in terms of sources of debt capital.

- Uncertainty around Basel III Endgame is prompting a strategic bank approach focused on top-tier sponsors and a growing allocation to financial intermediaries, while direct CRE lending remains limited to low-risk, relationship-driven deals.

EUROPE

Market composition, particularly in the UK, has diversified significantly since the GFC.

- Continental Europe faces a deeper funding gap where bank-dominated CRE lending is more directly pressured by Basel III finalization, while the UK sees more strategic bank activity as it delays implementation of the increased capital rules.

ASIA PACIFIC

CRE debt capital markets are bank dominated, but that is changing, particularly in Australia.

- Regulatory caps unique to APRA continue to limit bank exposure to development lending in Australia, reinforcing the opportunity for private lenders, especially as banks shift focus to stabilized assets.

PART II | PRIVATE CREDIT

PORTFOLIO CONSTRUCTION

PRIVATE CREDIT STRATEGIES

DEBT RETURN DRIVERS

HIGH INTEREST INCOME

New loan coupons continue to be cyclically high, benefitting from high base rates and attractive lending margins.

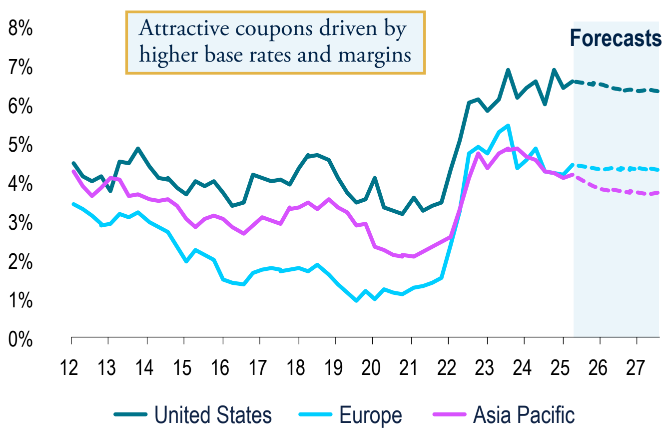
CONSERVATIVE LOAN METRICS

Due to higher interest rates, senior loan amounts will continue to be constrained by debt service coverage, keeping leverage levels modest.

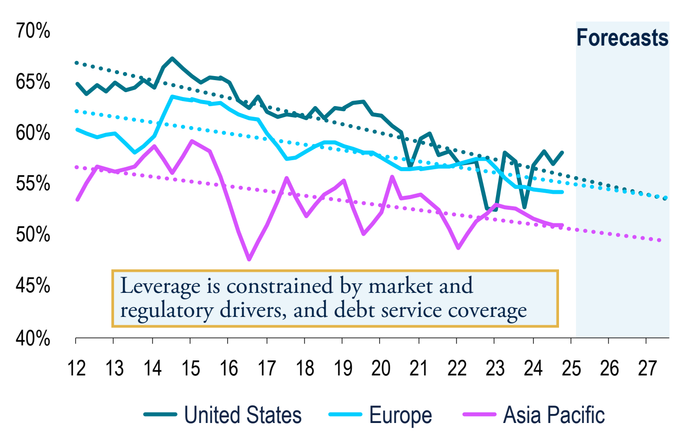
ATTRACTIVE ENTRY POINT

Elevated buy-in yields, low attachment points and expectations of improving credit profiles from growth in property NOI and values, point to the prospect of attractive debt returns.

SENIOR BANK LOANS ON OFFICE ALL-IN DEBT COSTS (%)



LTVS ON SENIOR LOANS (%)



Sources: PMA, Bloomberg, Oxford Economics, Bayes Business School, IREBS, MSCI/Real Capital Analytics, PGIM Real Estate. As of June 2025.

PRIVATE CRE CREDIT STRATEGIES

CORE

Modest leverage secured by stabilized real estate owned and operated by high quality sponsorship

- Focus on long term structural trends driving occupier and investor demand.
- High quality, stabilized assets positioned for enduring long-term relevance.
- Assets located in strong markets and micro-locations and owned and operated by strong sponsors.
- Investment grade equivalent senior loan investments with substantial borrower equity and predictable income streams.
- Contractual investor protections from covenants and controls that address liquidity and risk.

TRANSITIONAL

Loans against light transitional properties, levered and unlevered, and mostly floating rate

- Focus on well-located existing or newly built assets with in-place income.
- Assets that feature value-add and/or lease up business plans to increase property income and exit via sale or refinance.
- Levered and un-levered senior whole loans with moderate LTVs.
- Loan supporting business plans that improve income profile and property value driving positive credit migration.
- Capitalize on demand for improving existing assets, which need to be upgraded to meet future standards.

HIGH YIELD

Providing dynamic solutions across the capital stack

- Lower available debt on new senior loans creates a significant funding gap for alternative and flexible capital sources.
- Providing capital solutions for funding sustainable refurbishment and development projects.
- Bridge funding to allow for stabilization prior to sale / refinance / term out.
- Restructuring and growth capital for strong sponsors with stressed capital stacks secured by attractive real estate.
- Capitalize on under-supply of suitable stock in some markets.

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PART III | PRIVATE CREDIT

KEY INVESTMENT THEMES

UNITED STATES

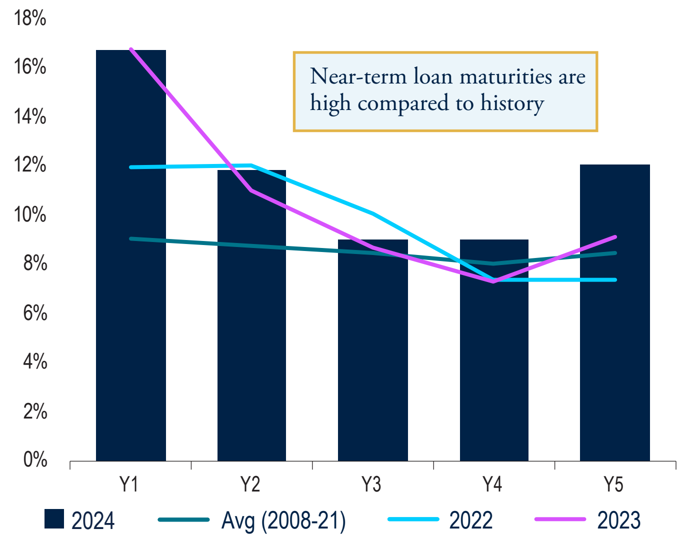
As senior lenders retreat from higher-risk lending, private credit is poised to expand its market share by providing flexible, higher-leverage financing solutions.

TOP INVESTMENT PICKS

- Gap financing
- Transitional financing
- Senior development loans

- Filling the funding gap left by traditional banks that have selective appetites for higher-risk lending, and remain debt service constrained, has led to structurally lower senior advance rates.
- There is a need for higher leverage whole loans and subordinate financing solutions to bridge the gap between senior lending levels and sponsors' financing needs.
- There is growing demand for debt financing to support value-add strategies, asset repositioning and institutional upgrades, especially across undersupplied asset classes. This includes development loans, an area where bank support is limited.[2]
- Near-term loan maturities remain high compared to the historical average, and are mostly bank-held, which is driving demand for creative, transitional capital solutions across the capital stack.
- With Basel III Endgame revisions yet to be finalized and timing uncertain, banks are strategically approaching the market, targeting top-tier sponsors and financial intermediaries. While direct lending is more focused on low risk, relationship-driven transactions, leaving more complex deals to non-bank lenders.

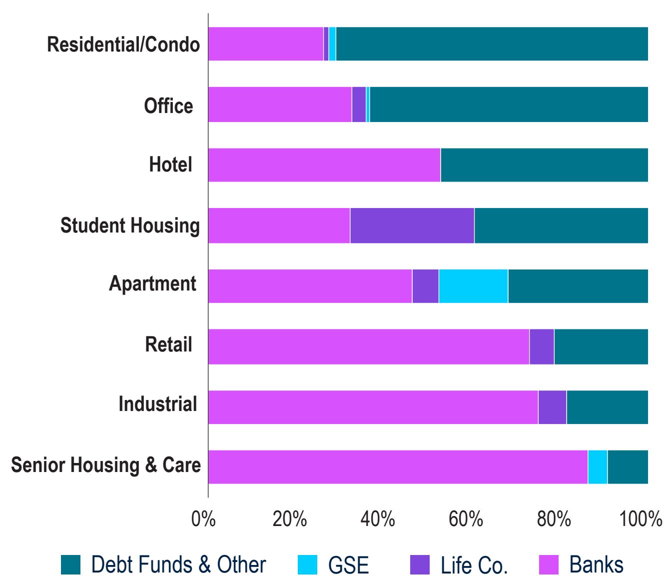
SHARE OF OF OUTSTANDING BALANCE OF COMMERCIAL & MULTIFAMILY LOANS (%)



Loan maturities do not include bank-held loans, due to a lack of historical data for comparison.

Sources: Mortgage Bankers Association, PGIM Real Estate. As of June 2025.

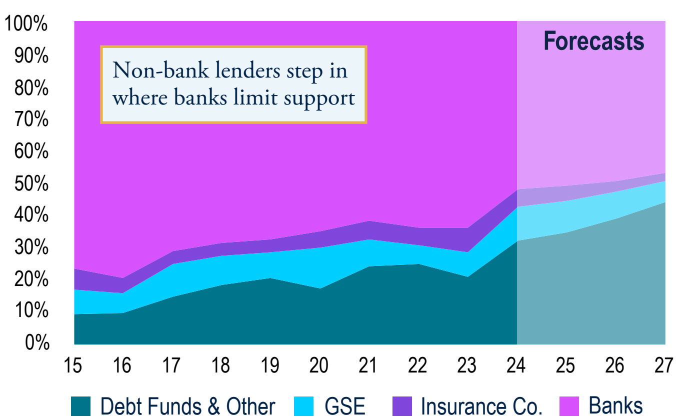
U.S. CONSTRUCTION LENDER COMPOSITION BY ASSET CLASS (%)



Note: Composition by asset class are over 2024.

Sources: MSCI, PGIM Real Estate. As of June 2025.

U.S CONSTRUCTION LENDER COMPOSITION (%)



Sources: MSCI, PGIM Real Estate. As of June 2025.

[2]PGIM Real Estate, *The Expanding Opportunity for Private U.S. Real Estate Credit*, April 2025.

EUROPE

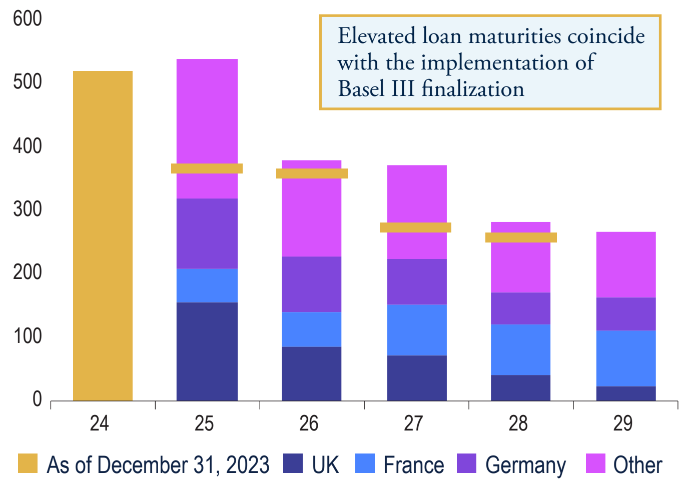
As banks implement Basel III finalization and further retreat from higher-risk lending, private credit is positioned to expand its market share, providing flexible, higher-leverage capital solutions.

TOP INVESTMENT PICKS

- Gap financing
- Transitional financing
- Senior development loans

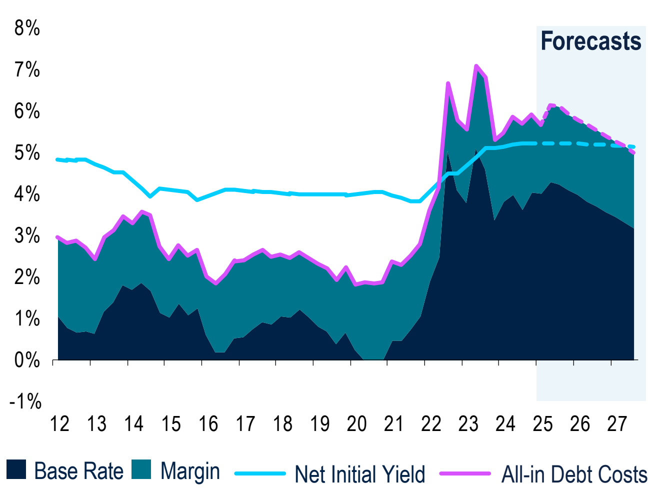
- Basel III finalization, effective from January 1, 2025 in continental Europe and delayed to January 1, 2027 in the UK, will further dampen bank appetite for higher-risk lending, driving sustained demand for alternative capital.
- Continental Europe faces a deeper funding gap as CRE lending remains bank-led, unlike the UK where a more developed alternative lender base is pushing banks toward a more strategic approach.
- Elevated loan maturities, constrained senior advance rates and rising ESG capex needs are driving demand for flexible capital solutions across the capital stack.
- There is an ongoing need for higher senior leverage, whole loan and subordinate financing to bridge the gap between senior lending levels and sponsor requirements.
- There is continued demand for transitional and development loans to support value-add business strategies and asset repositioning, especially in undersupplied markets and outdated stock.
- Debt is becoming accretive again, especially in continental Europe, which will help unlock transactions and create more financing opportunities.

EUROPEAN LOAN MATURITIES (US$ BILLIONS)

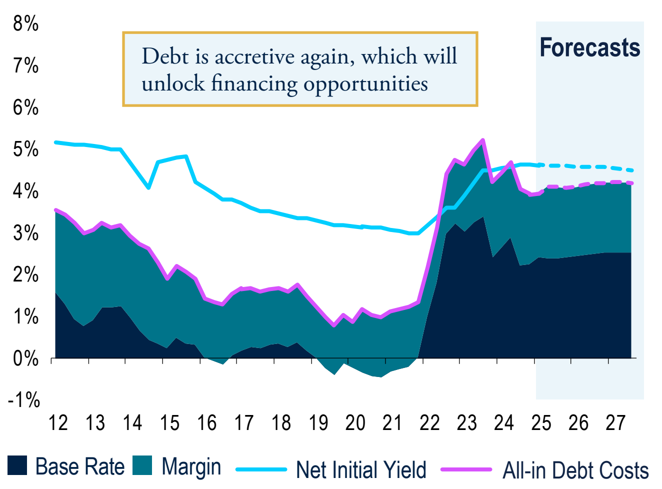


Sources: ECB, Bayes Business School, IEIF, IREBS, PGIM Real Estate. As of June 2025.

UK PRIME OFFICE: SENIOR LOAN ALL-IN DEBT COSTS VS. PRIME PROPERTY YIELDS



EUROPE EX. UK PRIME OFFICE: SENIOR LOAN ALL-IN DEBT COSTS VS. PRIME PROPERTY YIELDS



Sources: Bloomberg, PMA, Oxford Economics, Bayes Business School, IREBS, PGIM Real Estate. As of June 2025.

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AUSTRALIA

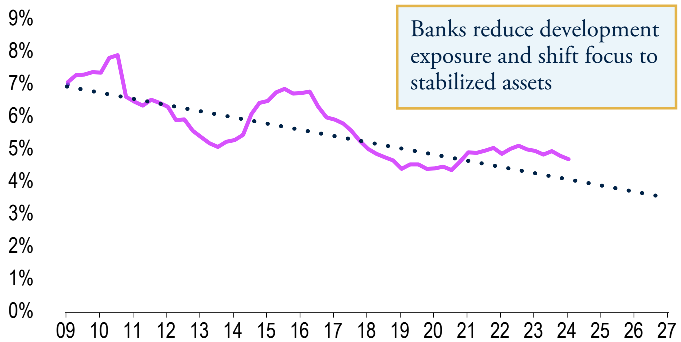
Private credit opportunities are driven by structural shifts in bank lending and a growing funding gap, while the current environment provides a favorable backdrop to forward returns.

TOP INVESTMENT PICKS

- Gap financing
- Transitional financing
- Senior development loans

- The private CRE credit opportunity in Asia Pacific is concentrated in Australia, where regulatory caps and capital requirements have curbed bank appetite for higher-risk lending.[3]
- There is opportunity to fill the funding gap left by traditional lenders, particularly in development and transitional assets. This is an area where banks have limited support.
- Even as interest rates moderate, banks remain constrained by debt service limitations, resulting in structurally lower senior advance rates and a continued need for higher-leverage capital solutions, including whole loans and subordinate debt.
- There is growing demand for flexible capital to support dynamic business plans and to modernize aging real estate stock. This is a trend further accelerated by rising ESG considerations.
- With debt becoming accretive once again, loan maturities elevated and capital stack needs expanding, private lenders are well placed to seize a broader set of financing opportunities.

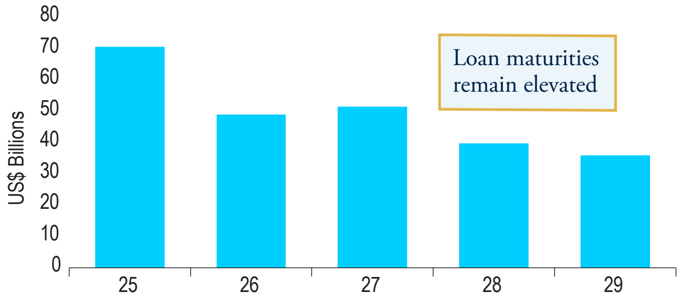
DEVELOPMENT EXPOSURE LIMITS AS % OF TOTAL COMMERCIAL PROPERTY LIMITS



Data refers to CRE exposure limits in Australia.

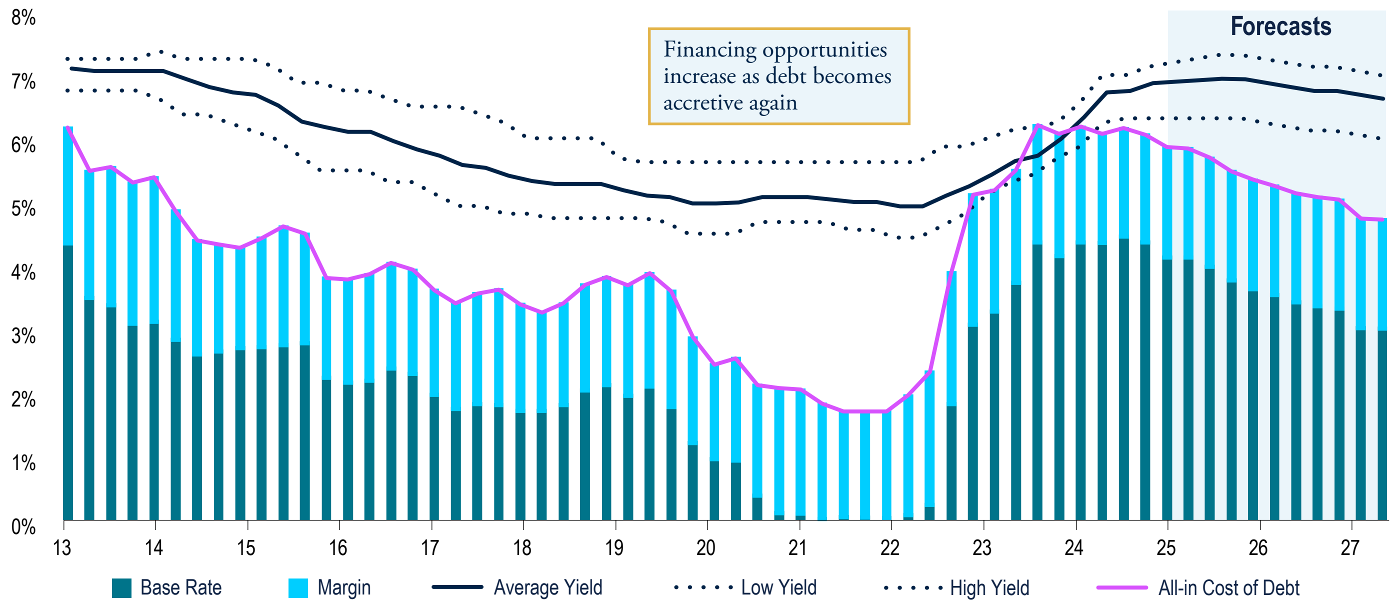
Sources: APRA, PGIM Real Estate. As of June 2025.

AUSTRALIA LOAN MATURITIES (%)



Sources: APRA, PMA, Cushman & Wakefield, MSCI, Bayes Business School, IEIF, IREBS, ECB, PGIM Real Estate. As of June 2025.

AUSTRALIAN CBD OFFICE: SENIOR LOAN ALL-IN DEBT COSTS VS. PRIME PROPERTY YIELDS



Sources: APRA, PMA, Bloomberg, JLL, Cushman & Wakefield, MSCI, Bayes Business School, IEIF, IREBS, ECB, PGIM Real Estate. As of June 2025.

[3] PGIM Real Estate, *Why Australia's Private Real Estate Credit Opportunity Is Here to Stay.* October 2024.

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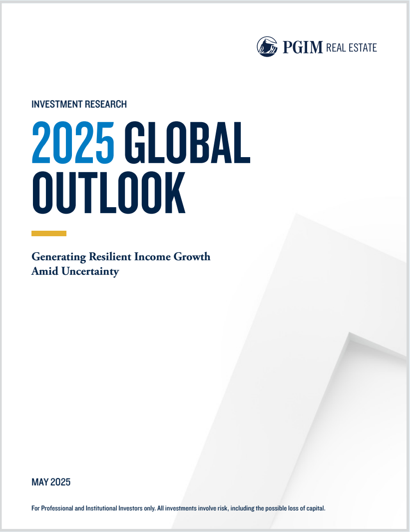

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