

# PRIVATE CREDIT INSIGHTS

## Key Themes

- How Will Lender Competition Shape the Private CRE Credit Landscape?
- Does Germany's Rising NPLs Signal an Opportunity for Investors?

### How Will Lender Competition Shape the Private CRE Credit Landscape?

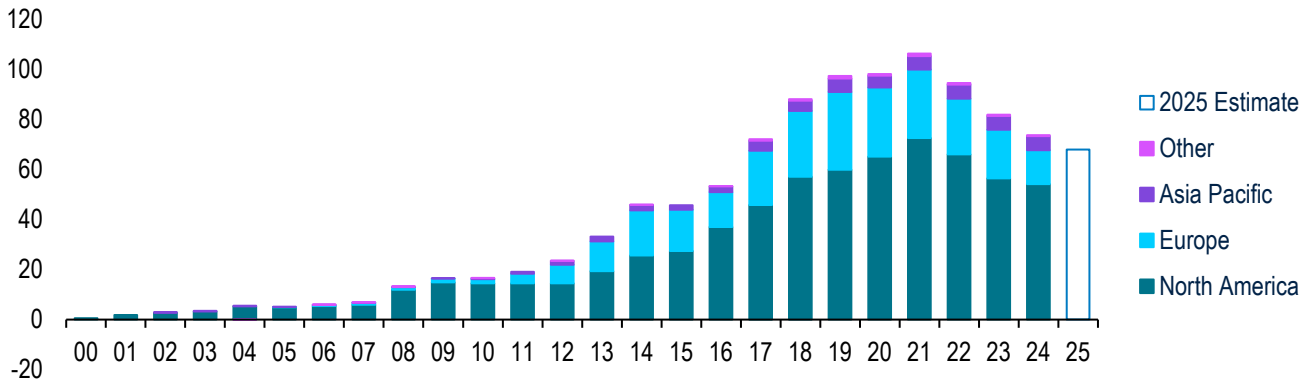
With commercial real estate (CRE) transaction volumes still subdued, lender competition has emerged as the defining feature of today's private CRE credit markets. A limited pipeline of deals is being met with significant capital deployment pressure, particularly from alternative lenders seeking to capture market share (**Exhibit 1**). This imbalance is driving spreads tighter and compressing returns, even as broader economic uncertainty persists.

The heightened competition is encouraging increasingly borrower-friendly terms. While senior lenders remain bound by conservative leverage and debt service constraints, junior and alternative debt providers are offering greater flexibility to meet borrower needs, creating a more dynamic lending environment, particularly for refinancing transactions and recapitalizations, where demand continues to build.

Although tighter spreads reduce headline yields, they are also reinforcing liquidity in CRE debt markets. The availability of capital is helping to stabilize pricing expectations and support deal execution, laying the groundwork for a rebound in transaction activity.

### Exhibit 1: Capital Deployment Pressure

Global Real Estate Debt Fund Dry Powder (\$US Billions)



Dry powder refers predominantly to closed-end funds. "Other" refers to globally diversified funds and other unspecified funds.

Sources: Preqin, PGIM Real Estate. As of September 2025.

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While lender competition fosters a more borrower-centric and liquid market, the resulting spread compression and flexible terms may help stabilize valuations and support deal execution, potentially laying the foundation for a recovery in transaction volumes. This could result in stronger liquidity, enhanced refinancing capacity and a more resilient market that may be better positioned for long-term growth.

Does Germany’s Rising NPLs Signal an Opportunity for Investors?

Germany’s non-performing loans (NPLs) rose from €38 billion in 2023 to €46.6 billion in 2024, with volumes projected to exceed €50 billion by 2025 and €60 billion by 2026. The increase is most acute in CRE, where the NPL ratio has climbed from 4.8% to 5.9%, reflecting valuation declines, refinancing challenges and shifting demand in office and retail.<sup>1</sup>

While rising defaults highlight stress within the system, they also unlock a deeper investment opportunity. Regulatory measures, including the EBA’s NPL backstop and Germany’s new secondary loan market

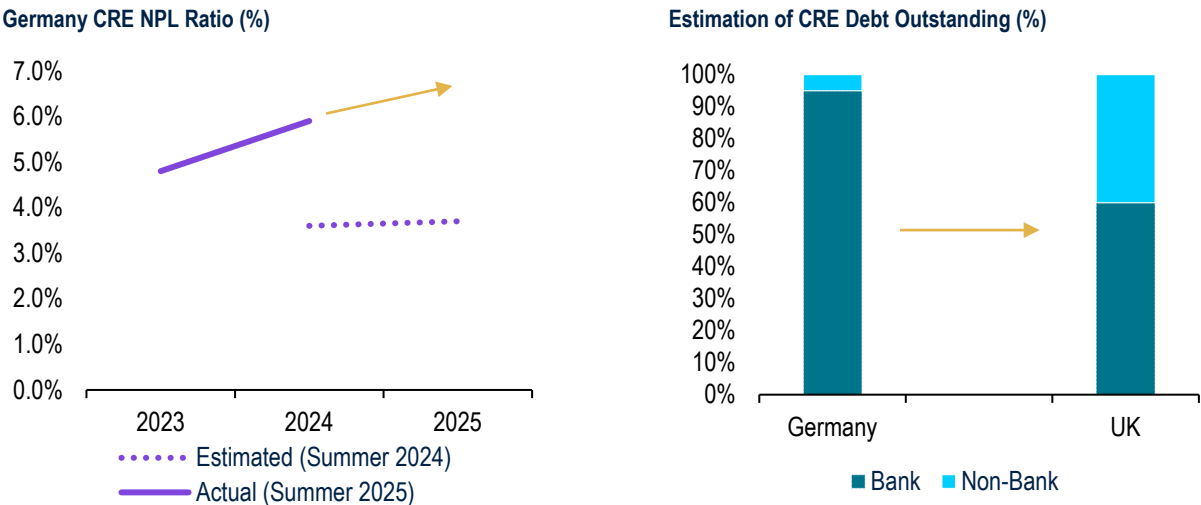
law, are encouraging banks to accelerate portfolio clean-ups.<sup>2</sup>

With traditional restructuring tools constrained, banks are turning to disposals and structured solutions. Instead of large portfolio sales, they increasingly favor deal-by-deal transactions, creating direct access points for alternative lenders and opportunistic capital.

For investors, this could translate into opportunities to acquire distressed CRE debt at discounted prices as banks prioritize capital preservation and de-risking balance sheets. Furthermore, stabilizing valuations and a maturing secondary market may provide greater visibility on downside risk.

Today, Germany’s CRE market remains bank-dominated, with lenders holding a 95% share.<sup>3</sup> However, rising NPL pressures may accelerate a structural shift toward non-bank financing, potentially mirroring the UK, where banks account for only 60% of the lending market (**Exhibit 2**). In this context, the rise in NPLs is less a warning sign than a catalyst, unlocking access to CRE debt and opening the way for broader capital market involvement.

Exhibit 2: Rising NPL Pressures May Accelerate a Structural Shift Toward Non-Bank Financing



Sources: BKS, Bayes Business School, PGIM Real Estate. As of September 2025.

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<sup>1</sup>NPL-Barometer Frühjahr 2025. Source: BKS (Bundesvereinigung Kreditsank und Servicing).

<sup>2</sup>The German Secondary Credit Market Act (Kreditweitzmarktgesetz – KrZwMG) came into force on December 30, 2023. The law sets out new rules for the sale of non-performing loans. Source: [Bafin](#), Federal Financial Supervisory Authority.

<sup>3</sup>European CRE lending, H1 2025. Source: Bayes Business School.

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