

Why now for real estate debt?

February 2026

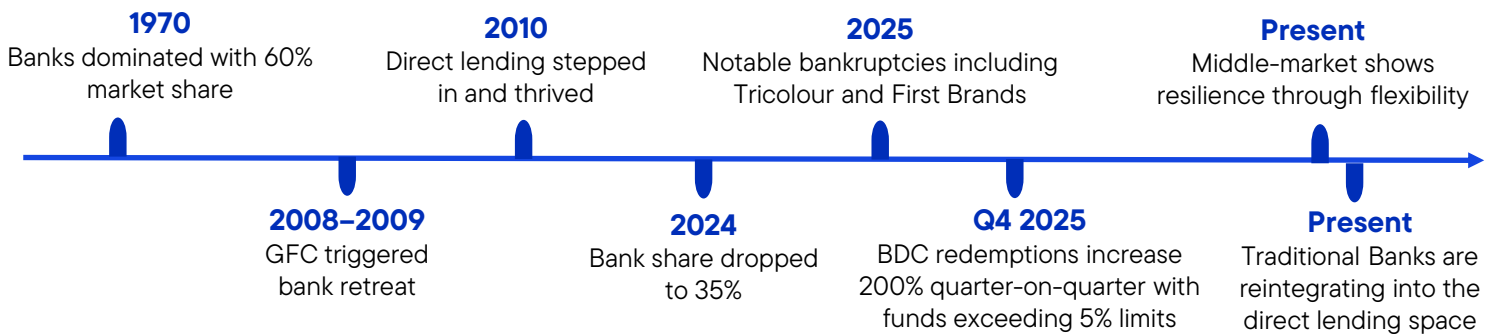


Private credit market backdrop

Historically, wealth investors have increased their private credit exposure through direct lending business development company (BDCs) to **diversify from public markets** with higher, floating-rate income alongside lower historical loss rates than public credit.

With public corporate valuations at all-time highs and recent notable redemptions from traditional direct lending BDCs, investors are seeking **alternative income-oriented private asset opportunities**.

A brief history of direct lending



Real estate debt as an alternative to private credit – benefits to investors

Tangible collateral	Downside risk mitigation	Inflation hedge	Superior recovery	Diversification	Market stability
Physical property backing vs. cash flow-dependent loans	50–70% loan-to-value ratios ¹ provide substantial equity cushions	Floating rate structures benefit from rising property values and rents	Clearer workout paths and lower loss severity than corporate loans	Similar income characteristics with fundamentally different risk drivers	Historically viewed as a comfort investment during volatility

Real estate debt returns in context

Given the varying annual performance, constructing a diversified credit exposure is important. With strong year-on-year performance, real estate debt is a complement to direct lending.

2018	2019	2020	2021	2022	2023	2024	Q3 2025
US Real Estate Debt 9.9%	US Real Estate Debt 9.3%	US Real Estate Debt 6.8%	US Direct Lending 12.8%	US Real Estate Debt 7.7%	US Direct Lending 12.1%	US Direct Lending 11.3%	US Real Estate Debt 7.5%
US Direct Lending 8.1%	US Direct Lending 9.0%	US Direct Lending 5.5%	US Real Estate Debt 8.5%	US Direct Lending 6.3%	US Real Estate Debt 6.2%	US Real Estate Debt 9.1%	US Direct Lending 7.0%

Note: **PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. ANY INVESTMENT INVOLVES SIGNIFICANT RISKS, INCLUDING LOSS OF THE ENTIRE INVESTMENT.**

Views expressed are those of BSP at the time of this presentation and are subject to change. There can be no assurance that historical trends will continue.

Source: Franklin Templeton Capital Markets Insights Group as of 30/09/2025. US real estate debt: Giliberto-Levy High Yield Commercial Real Estate Index – Bridge / Transitional, US direct lending: Cliffwater Direct Lending Index.

¹ WA As-Stabilized LTV represents the weighted average of the total commitment at close of the loan in the cumulative total portfolio and is calculated as a percentage of total commitment of the loans over the appraisal value of the loans.

Not FDIC Insured | No Bank Guarantee | May Lose Value

Correlations of US real estate debt to US direct lending

US real estate debt has exhibited **low-to-negative correlation** to US real estate equity and US direct lending over a ten-year rolling basis, highlighting its potential to enhance portfolio diversification.

Ten Years Rolling Q4 2015–Q3 2025

	US Investment Grade	US Real Estate Debt	US Direct Lending	US Real Estate Equity
US Investment Grade	1.00			
US Real Estate Debt	-0.03	1.00		
US Direct Lending	-0.02	-0.08	1.00	
US Real Estate Equity	-0.39	0.10	-0.14	1.00

Source: Franklin Templeton Capital Markets Insights Group as of 30/09/2025. US real estate debt: Giliberto-Levy High Yield Commercial Real Estate Index, US direct lending: Cliffwater Direct Lending Index, US real estate: NCREIF Fund Index Open End Diversified Core Equity (ODCE) Index, US investment grade: Bloomberg US Aggregate Bond Index

Real estate debt and direct lending – key differences

When comparing the key characteristics of real estate debt and direct lending, there are some notable differences in the underlying investments, portfolio characteristics and sensitivity to economic conditions. We believe real estate debt complements direct lending, and/or could replace a portion of an investor's traditional fixed income allocation.

	Direct Lending	Real Estate Debt
Underlying assets	Loan is provided to a single corporate entity; typically, cash flow lending	Backed by real estate such as multifamily residential complexes, retail centers or industrial facilities
Maturity	Typically, 6–7 years	Typically, 2–3 years with 1–2 one-year extensions
Repayment structure	Typically bullet repayment	Typically bullet repayment
Inflation hedge	Potential risk of poor business performance and debt servicing issues from inflationary pressure	Asset values and rents historically have risen with inflation

Why real estate matters now



Traditional lenders pulling back

With traditional lenders reducing their activity, strong private lenders are stepping in to fill a crucial gap, making well-capitalized firms essential.



Wave of maturities ahead

A significant wave of maturities ahead in the real estate market further enhances the demand for flexible private capital to bridge financing needs.



Attractive entry point

Multifamily property values have declined by ~30%¹ from their Q4 2021 peak, with all major markets impacted.

1. Source: Green Street, 09/30/2025.

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