BARINGS

REAL ESTATE

Why Real Estate Debt & Why Now?

Commercial mortgages offer similar benefits as private debt along with the security and optionality of real estate equity. Amid a wave of refinancing needs and lower bank activity, non-bank lenders are finding stronger structures and better pricing opportunities.

INSIGHTS

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Why Real Estate Debt?

Private real estate debt brings together some of the most attractive features of both private real estate equity and private credit. In the current cycle, investors are positioned to benefit from three mutually reinforcing trends: a substantial wall of maturities coming due for refinancing over the next several years, gradually improved transaction volumes, and lower activity from certain parts of the banking sector. Together, these factors are expanding the opportunity for non-bank lenders to originate loans on more favorable terms—often with stronger structures and better pricing than in prior cycles. For both longstanding market participants and newer investors, the forward-looking case remains compelling.

WHAT MAKES IT COMPELLING

Private real estate debt has long been a complimentary component of many institutional investors' allocations. Its relevance has endured across market cycles and economic environments, largely because it offers investors a variety of ways to pursue attractive risk-adjusted returns. Under the umbrella of real estate debt, investors can target distinct combinations of property type, cash flow profile, capital structure position and geography—tailoring allocations to their own unique objectives and to prevailing market conditions, without abandoning the security that comes from lending against hard-asset collateral.

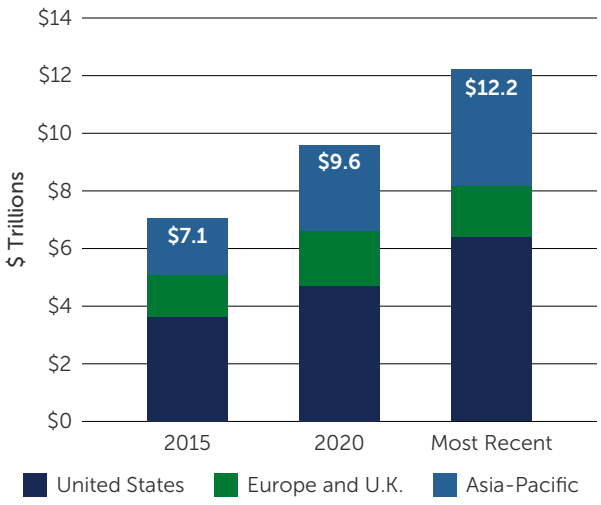
Private real estate debt can take many forms, but its enduring appeal for investors is rooted in three primary characteristics:

LARGE OPPORTUNITY SET

The scale and diversity of real estate debt underscores its institutional relevance and its capacity to absorb capital without sacrificing selectivity. The global commercial real estate debt market comprises roughly $12.2 trillion of debt outstanding across the U.S., Europe, and Asia-Pacific, up 27% from 2020. The U.S. represents the largest region with a roughly $6.4 trillion market size, but other geographies are sizable as well with nearly $4.0 trillion in Asia Pacific and $1.8 trillion blended across Europe **(Figure 1)**.

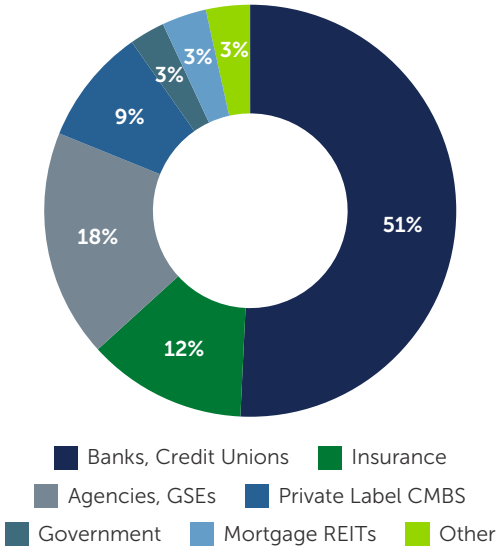
The broad appeal of real estate debt is further reflected in the diverse range of lender types, both bank and non-bank, competing for market share. In the U.S., the volume of non-bank commercial real estate (CRE) loans increased by nearly $570 billion from 2020 to 2026, reaching roughly $3.2 trillion to account for nearly half of the $6.5 trillion U.S. CRE debt market **(Figure 1)**. While banks continue to play a larger role in real estate debt markets outside the U.S., the growing presence of non-bank lenders is a global phenomenon. As the market continues to evolve and expand internationally, this growing diversity of participants and strategies is likely to further accelerate the development of real estate debt as a global asset class—broadening the opportunity set for institutional investors worldwide.

Figure 1: Global Commercial Real Estate Debt Market Size by Region ($ Trillions)



Sources: Federal Reserve; PBoC; BoJ; RBA; Other Central Banks; Bayes Business School; Reuters; Swiss Re; Real Asset Insights; Press Reports. As of June 30, 2026.

Figure 2: U.S. Commercial Real Estate Debt Outstanding by Lender Type



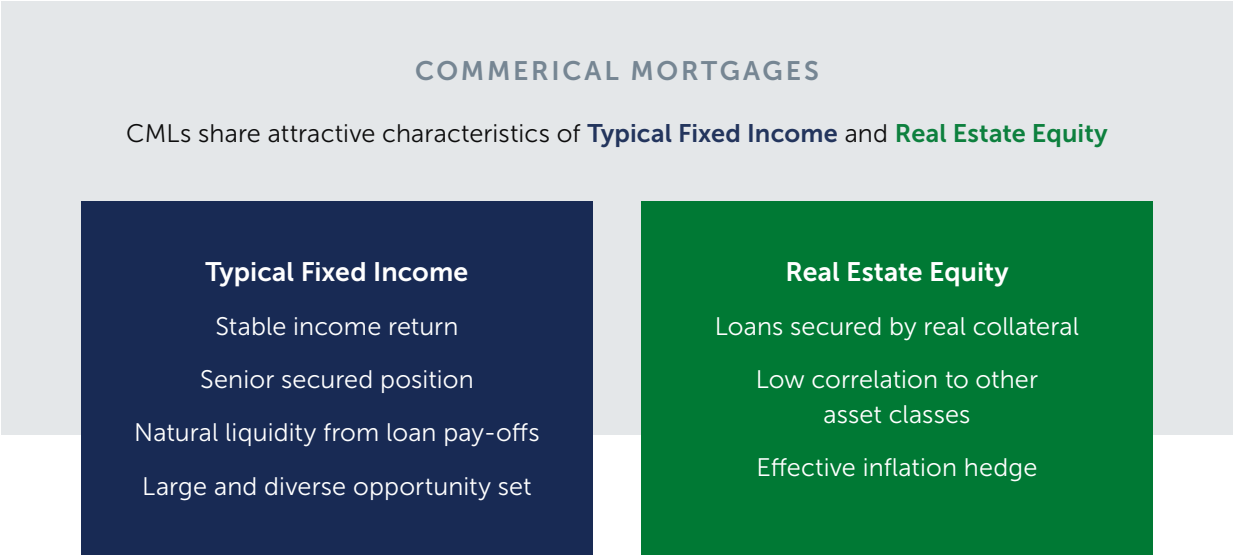
Source: Federal Reserve. As of June 30, 2026.

INHERENT SECURITY

Hard Collateral Insulation, Income Driven Returns

Private real estate debt stands out for its unique blend of security and stability, drawing on characteristics found in both private real estate equity and private credit.

Figure 3: Commercial Mortgages



Source: Barings. As of August 2026.

The intrinsic value of real estate, driven by its usefulness, scarcity, and physical nature, has been known to establish a lower limit to its value, offering potential loss protection. For example, if a building loses a tenant and experiences a temporary decline in cash flow, the ability to re-lease the space helps preserve its value. Even in more extreme cases—such as the complete loss of a building to which an equity investment's cash flow is tied—the land itself often retains meaningful value.

If a borrower becomes unable to meet their debt obligations, investors can reclaim the hard-asset collateral through the Real Estate Owned (REO) process. This hard asset value floor provides an alternative source of security for investors—and, when coupled with the stability of a real income stream and senior position in the capital structure, it offers a differentiated layer of downside protection relative to many other private market strategies.

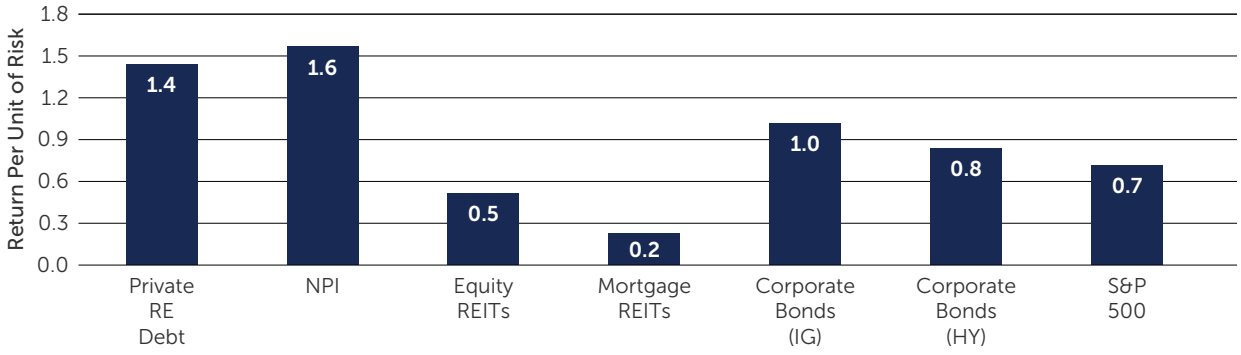
CLEAR PATHWAY TO POTENTIAL ALPHA

Risks Diminish Over Time; Rewards Do Not

Historically, private real estate debt has exhibited attractive pricing (and therefore gross returns) relative to comparable asset classes, for two primary reasons. First is the illiquidity premium that stems from committing capital in an illiquid, buy-and-hold market with limited secondary trading. Second is the complexity premium, a result of the high barriers to entry characteristic of the market (i.e., specialized expertise is required to source, underwrite and actively manage these investments).

When considering the potential for attractive gross returns alongside the asset class's inherent security and stability, private real estate debt also stands out for its potential to deliver attractive risk-adjusted returns, as it has historically **(Figure 4)**.

Figure 4: Risk-adjusted Returns Per Unit of Risk



Sources: Giliberto-Levy (Giliberto-Levy Commercial Mortgage Performance Index); NCREIF (NPI), NAREIT (Equity REITs and Mortgage REITs Total Return Indices); Federal Reserve Bank of St. Louis (ICE BofA U.S. Corporate Total Return Index, ICE BofA U.S. High Yield Total Return Index); Bloomberg (S&P 500 Total Return Index). Data represents the compounded and annualized total return indications of each index for the period from 1990Q1 through 2026 Q2 except for Private RE Debt which is as of 2026 Q1. Return per Unit of Risk represents each index's annualized total return divided by its annualized standard deviation. As of June 30, 2026.

A key contributor to real estate debt's strong risk-adjusted returns is the clear pathway it offers to potential alpha. In today's competitive lending environment, baseline loan pricing is determined by supply and demand. At the same time, limited new construction activity and a shortage of new stock across many property sectors have constrained supply, creating a supportive backdrop for existing assets and lending opportunities. However, lenders can achieve premium pricing by taking on additional complexity.

For example, while the market sets standard pricing for a senior loan on a fully leased multifamily building, a lender might command a higher rate by financing a similar property in a secondary growth market that is undergoing a renovation of its amenity spaces. In this scenario, the uncertainty around completing renovations on time and within budget introduces risk, for which an investor could reasonably expect a premium. The key to alpha generation in real estate debt lies in lending where perceived risk exceeds actual risk—meaning the lender is compensated for risks that can be mitigated through careful underwriting, loan structure and due diligence. Thoroughly vetting the contractors and project plan and setting aside loan escrows, for instance, could reduce the execution risk below the level implied by the premium.

This approach involves balancing several core risk factors that are present, to varying degrees, in all real estate investments: business plan, market/geography, property type/ sector, and liquidity. The ability to consistently identify and manage these risks allows real estate debt lenders to pursue favorable risk-return profiles for their investments and potentially achieve strong, sustainable risk-adjusted returns.

Figure 5: Example: $75,000,000 Bridge Loan Secured by Industrial Building

	Month 1 Loan Originated	Month 24 Loan Funding in Process	Month 36 Loan Maturity
Amount Funded	$50,000,000	$65,000,000	$75,000,000
Style	Value-Add	Core+	Core
Occupancy	50%	75%	100%
DSCR	0.55x	0.98x	1.30x
Business Plan	Initiate Business Plan	Business Plan Execution in Process	Property Achieves Stabilization
	• 2 existing tenants in place/pay rent • Implement tenant marketing plan • Begin capital improvements	• 1 new tenant occupy/pay rent • 1 new lease signed/TI's in process • Capital improvements underway	• All new tenants occupy/pay rent • TI's complete • Capital improvements complete
LTV	75%	70%	65%
Actual Interest Rate	SOFR + 350	SOFR + 350	SOFR + 350
Market Interest Rate	SOFR + 350	SOFR + 250	SOFR + 150
Net Spread to Market	0	100	200

Improved Risk-Adjusted Return

Source: Barings. As of June 30, 2026. This is a hypothetical example for illustrative purposes only. Actual results may vary.

PORTFOLIO-CONSTRUCTION FLEXIBILITY

Low Correlation to Other Asset Classes; Diversification Within the Asset Class Itself

Beyond its merits as a standalone investment strategy, real estate debt can play a valuable role within a broader multi-strategy portfolio. One of its most notable attributes is its low correlation with other major asset classes. As shown in **Figure 6**, real estate debt total returns have historically demonstrated minimal correlation to much of the investible universe, including private real estate equity and REITs.

Figure 6: Real Estate Debt Returns Show Minimal Correlation to Investible Universe

	Private RE Debt	NPI	Equity REITs	Mortgage REITs	Corporate Bonds (IG)	Corporate Bonds (HY)	S&P 500
Private RE Debt	1.00						
Private RE Equity	0.04	1.00					
Equity REITs	0.36	0.13	1.00				
Mortgage REITs	0.30	-0.10	0.60	1.00			
Corporate Bonds (IG)	0.68	-0.21	0.46	0.50	1.00		
Corporate Bonds (HY)	0.31	-0.15	0.65	0.54	0.58	1.00	
S&P 500	0.08	0.04	0.63	0.47	0.34	0.71	1.00

Sources: Giliberto-Levy (Giliberto-Levy Commercial Mortgage Performance Index); NCREIF (NPI); NAREIT (Equity REITs and Mortgage REITs Total Return Indices); Federal Reserve Bank of St. Louis (ICE BofA U.S. Corporate Total Return Index, ICE BofA U.S. High Yield Total Return Index); Bloomberg (S&P 500 Total Return Index). Correlations were calculated by comparing each index's series of quarterly total returns (expressed as a percentage). As of June 30, 2026.

Further, real estate debt typically provides a significant current income component. Because commercial mortgage loans (CMLs) are buy-and-hold investments with limited secondary market activity, returns are driven primarily by contractual interest payments and fee revenue, rather than by mark-to-market gains or tactical trading decisions. This income-driven profile makes real estate debt a complementary addition to broader multi-strategy portfolios.

The breadth of the investible universe also allows for meaningful diversification within the asset class itself. Investors can calibrate exposures by property type (e.g. multifamily, industrial, retail), geography (e.g. U.S., Asia-Pacific, various sub-regions and cities), position in the capital structure (e.g. senior, junior, mezzanine, whole loans), and cash flow profile (stabilized, transitional or development-adjacent). These levers allow portfolios to be tailored to specific objectives while maintaining the central protections of lending against hard collateral.

Why Now?

The emergence and confluence of certain macroeconomic and market-specific factors have created a real estate lending environment that is notably more favorable than that of previous decades.

MATURITY WALL

A Growing Opportunity Set

Elevated base rates in recent years led many borrowers to delay refinancing, opting for extensions where possible in the hope of more borrower-friendly pricing in the future. However, recapitalization can only be postponed for so long. As borrowers exhaust extension options and face final maturities, they must come to the market. This backlog of delayed refinancings has resulted in a "maturity wall," with a large volume of loans coming due at once and driving heightened demand for new financing. According to the Mortgage Bankers Association, $874 billion in commercial real estate loans will mature in 2026, with nearly $2.1 trillion set to mature over the next three years in the U.S. This concentration of maturities—which is particularly pronounced in the office and multifamily sectors—should support healthy origination pipelines for well-positioned non-bank lenders.

CONSTRAINED BANKS

A Less Competitive Lending Environment

At the same time, banks—the largest historical suppliers of commercial mortgages—have steadily reduced their real estate lending activity as a share of market. This trend, which began over a decade ago due to heightened regulation following the global financial crisis, has accelerated in recent years. Several high-profile incidents, including the U.S. regional banking crisis of 2023, the collapse of Credit Suisse in Europe, and concerns about certain Chinese banks, have further constrained banks' willingness and ability to lend. As a result of this pullback, there have been more opportunities for non-bank lenders to step in with flexible capital solutions, particularly in situations where traditional lenders are constrained.

Conclusion

We believe private real estate debt stands at a pivotal moment, shaped by both enduring fundamentals and a rapidly evolving market landscape. Its unique combination of inherent security, potential for alpha, and portfolio-construction flexibility has long made it a core allocation for institutional investors.

Today, the convergence of a substantial maturity wall, improved transaction activity, and a pronounced pullback from traditional bank lenders is expanding the opportunity set, allowing non-bank lenders to access more favorable terms and structures than in prior cycles. The asset class's global growth, increasing diversity of strategies, and resilience over time further underscore its relevance in modern portfolios. As the market continues to evolve, real estate debt is poised to play an even more significant role—offering investors a compelling blend of downside protection, income, and risk adjusted return potential in an increasingly complex investment environment.

Why Barings' Real Estate Platform

We review over $160 billion in deals annually, leveraging decades of experience and a robust origination network to source differentiated opportunities and maintain disciplined credit standards. Our integrated platform, cross-functional investment committees, and in-house expertise across asset classes and structures enable us to navigate complexity as we seek to deliver consistent, cycle-tested results for investors.

SCALE

EXPERTISE

LONG-TERM TRACK RECORD

$34 B+	$90 B+	308+
in Real Estate Debt AUM	*in Loans Closed since 2004*	*dedicated investment professionals across U.S., Europe and Asia Pacific*

Source: Barings. As of June 30, 2026.

Barings is a $502 billion global alternative asset manager that partners with institutional, insurance and wealth clients and supports leading businesses with flexible financing solutions. The firm, a subsidiary of MassMutual with a minority investment from MS&AD, seeks to deliver excess returns by leveraging its global scale and capabilities across credit, real assets, capital solutions and emerging markets.*

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