MARKET PERSPECTIVE

JULY 2026

PRIME Finance

Not All Private Credit Is Created Equal

How CRE Debt Stands Apart and Why Reset Values Are Changing the Calculus

EXECUTIVE SUMMARY

Private credit is not one market. We believe treating it as one is leading investors to misprice risk.

Recent headlines have focused on risks in private credit. Most of that concern is directed at corporate lending, not commercial real estate (CRE) credit.

That distinction matters. Corporate private credit and commercial real estate credit are fundamentally different businesses with different collateral, different loss drivers, and different outcomes in stress.

We believe now is an opportune time for CRE private credit. The repricing that has reshaped commercial real estate since 2022 (see "Real Estate Repricing Strengthened CRE Credit" below) has quietly strengthened the CRE private credit environment for new lending, creating structural tailwinds for disciplined investors.

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A Structural Distinction for CRE Credit

Private credit is not monolithic: CRE credit is secured by tangible, income-producing assets. Corporate private credit, by contrast, is typically backed by enterprise value, cash flow projections, and increasingly aggressive capital structures. These are fundamentally different risk profiles.

Exhibit 1: Historically Strong CRE Credit Metrics

Conduit CMBS Market Fundamentals

	Pre-GFC	Risk Retention Began Late-2016										
	2007	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Weighted Average LTV	69.6%	64.5%	59.9%	57.2%	57.8%	58.5%	54.8%	55.2%	53.2%	52.1%	55.4%	57.0%
% Loans LTV >70%	58.0%	34.8%	21.1%	11.5%	10.0%	10.7%	6.9%	4.7%	2.6%	0.5%	2.9%	4.6%
% Loans LTV >74%	45.3%	16.2%	7.7%	3.2%	2.3%	3.1%	1.2%	0.9%	0.4%	0.1%	0.5%	1.0%
Underwritten DSCR	1.39x	1.72x	2.01x	2.18x	2.07x	2.30x	2.87x	2.87x	2.58x	1.80x	1.75x	1.83x
Underwritten Debt Yield	9.0%	9.8%	10.4%	10.9%	10.8%	10.6%	11.3%	10.8%	11.4%	12.5%	12.6%	12.8%

Historically Strong Fundamentals

Source: Historical CMBS metrics (2007, 2015 - 2025): Intex, Wells Fargo Securities and Wells Fargo Conduit CMBS Deal Tracker; Subordination (BBB-) metrics: Morgan Stanley CMBS Deal Comp Database and Wells Fargo Conduit CMBS Deal Tracker; % Loans LTV >70%: Morgan Stanley Research

A Structural Distinction for CRE Credit

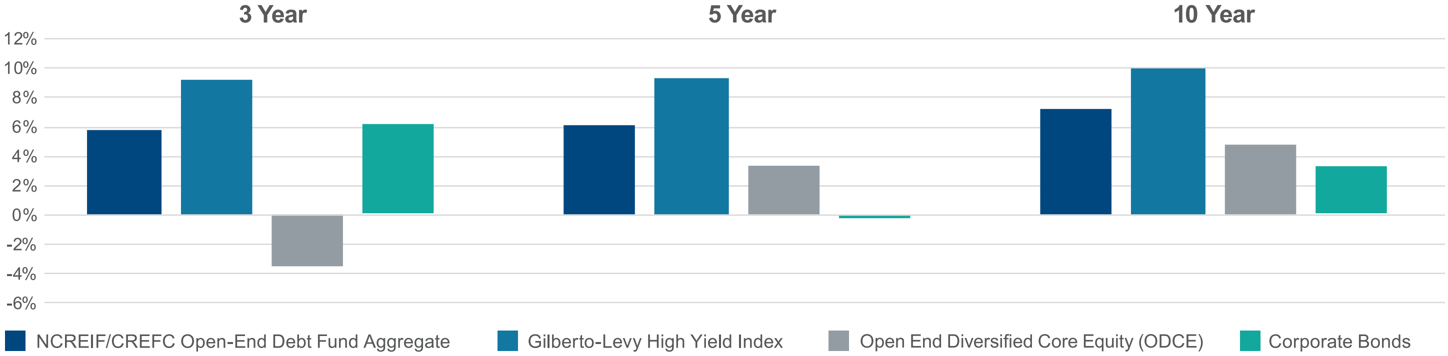
CRE loans benefit from three characteristics that have historically differentiated their behavior across cycles:

- **Tangible collateral.** Every loan is secured by a physical asset with independently ascertainable value, providing a layer of downside protection that unsecured or enterprise-value-backed corporate credit may not offer.
- **Conservative leverage.** Today's CRE loans are originating at historically low LTVs. As seen in **Exhibit 1** on the previous page, Conduit CMBS weighted average LTVs have held near the mid-55% range in recent quarters, well below the nearly 70% average that prevailed before the Global Financial Crisis. The share of loans with LTVs exceeding 70% has fallen from 58% pre-GFC to just 4.6% in 2025. Underwritten debt yields have climbed from 9% pre-GFC to roughly 12.8% in 2025, and debt service coverage ratios remain robust at approximately 1.83x.
- **Predictable property cash flows.** Unlike corporate earnings, property-level cash flows are anchored by lease contracts, occupancy fundamentals, and often inflation-linked escalators, making CRE debt service coverage inherently observable and stress-testable.

These attributes are not theoretical. Over five- and ten-year horizons, real estate credit has delivered stronger returns than real estate equity and corporate bonds (**Exhibit 2** as shown below). Private real estate credit has also posted an annualized risk/return ratio of 5.4, more than double any other asset class in the alternatives space, and boasts the lowest risk, or annualized standard deviation of 1.6 (**Exhibit 3** as shown below).

Exhibit 2: CRE Debt Outperforms Corporate Debt and CRE Equity

Historical Total Returns (%)



Source: Giliberto-Levy, NCREIF, CREFC, and Bloomberg. Data as of 4Q 2025. The NCREIF/CREFC Open-End Debt Fund Aggregate is an equal-weighted composite of fund-level returns from open-ended CRE debt funds with strategies ranging from core to value-add and including both fixed- and floating-rate loans. The Gilberto-Levy High Yield Index (GL2) represents high-yield CRE debt, such as second mortgages, mezzanine loans, and preferred equity. Open End Diversified Core Equity (ODCE) represents levered, capitalization-weighted, gross-of-fee returns from open-ended core equity CRE funds that use low-leverage strategies. The Bloomberg U.S. Corporate Bond Index tracks the investment-grade, fixed-rate, taxable corporate bond market, including USD-denominated securities issued by U.S. and non-U.S. industrial, utility, and financial issuers.

Exhibit 3: Private Real Estate Credit Outperforms Across the Alternative Space

	Return*	Risk**	Risk/Return Ratio
Private Equity	16.2	7.3	2.2
Venture Capital	13.2	10.8	1.2
Private Real Estate Equity	10.1	4.9	2.1
Infrastructure	6.8	7.1	1.0
Private Credit	9.4	5.0	1.9
Private Real Estate Credit	**8.7**	**1.6**	**5.4**

* Returns are annualized total returns over full time period

** Risk is measured by annualized standard deviation. Standard deviation measures the range of total returns in a portfolio or index in comparison to the mean.

Source: Invesco Distributors, Inc., Why Private Real Estate Credit? Performance and Correlations, September 9, 2025.

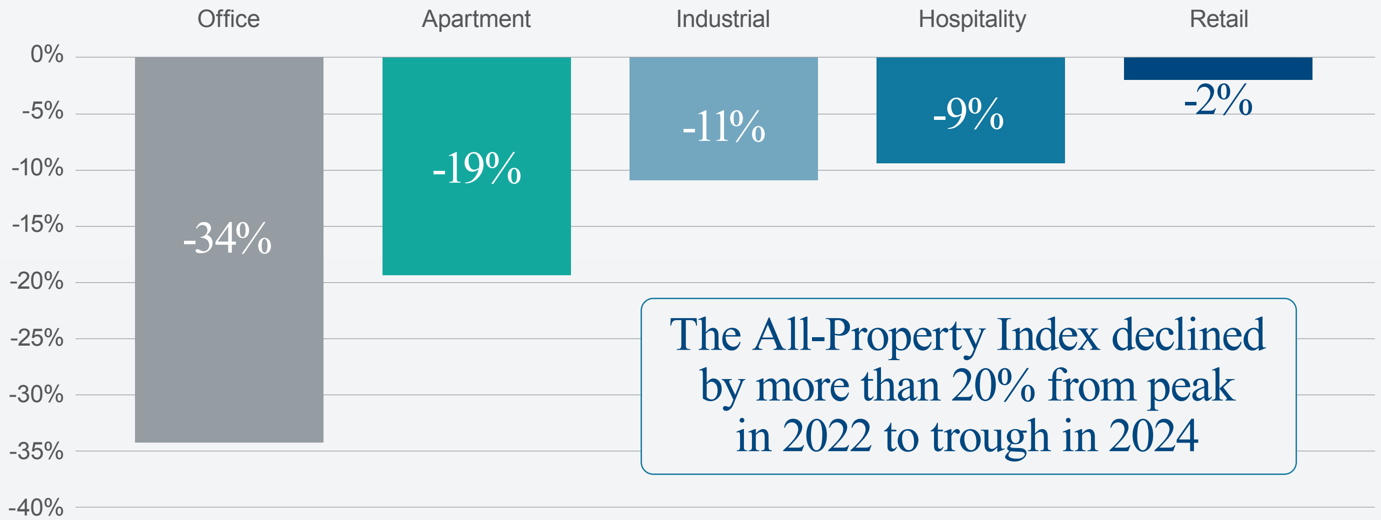
The takeaway is not that corporate private credit lacks merit. It is that we believe investors applying the same risk lens across both segments are mispricing the structural protections embedded in CRE lending.

Real Estate Repricing Strengthened CRE Credit

Since interest rates began rising in 2022, CRE valuations have undergone material correction. The Green Street Commercial Property Price Index declined 14% from its 2022 peak through June 2026, with sector-level declines ranging from 2% in retail to 34% in office (**Exhibit 4** below).

Exhibit 4: CRE Value Reset Creates a Window of Opportunity

Range of CRE Price Declines by Property Sector (From 2022 Peak - June 2026)



Source: Green Street Commercial Property Price Index; released July 7, 2026. Retail denotes strip center retail.

For equity holders, this repricing has been painful. For lenders, it has been transformative. Lower valuations mean newly originated loans are underwritten against a fundamentally more conservative collateral base. A loan originated today at 60% LTV is secured by an asset that should have already absorbed a significant valuation adjustment, thereby building in a cushion that loans originated at peak pricing never had.

This dynamic is especially pronounced in markets that experienced the sharpest dislocations. San Francisco offers a compelling case study. We believe few U.S. markets absorbed more compounding stress, pandemic-driven demand destruction followed by aggressive rate hikes, and few now present as strong a set of tailwinds: reset basis, dynamic demand driven by AI and technology leasing, and constrained new supply.

Multifamily vacancy in San Francisco compressed to 4% in the first quarter of 2026 with accelerating rent growth, supported by persistent housing undersupply.[1] Office absorption has turned meaningfully positive, with total space leased by AI companies in San Francisco increasing 66% over the past two years to 6.3 million square feet.[2] Since January 2024, Prime Finance has originated eight investments across nine San Francisco properties in the hotel, multifamily, and office sectors, representing $439 million in total commitments at a weighted average LTV of 64.8%.

Across property sectors, we believe the story is consistent: reset valuations have established a more defensible lending basis, and improving fundamentals are reinforcing the cash flow durability that underpins credit performance.

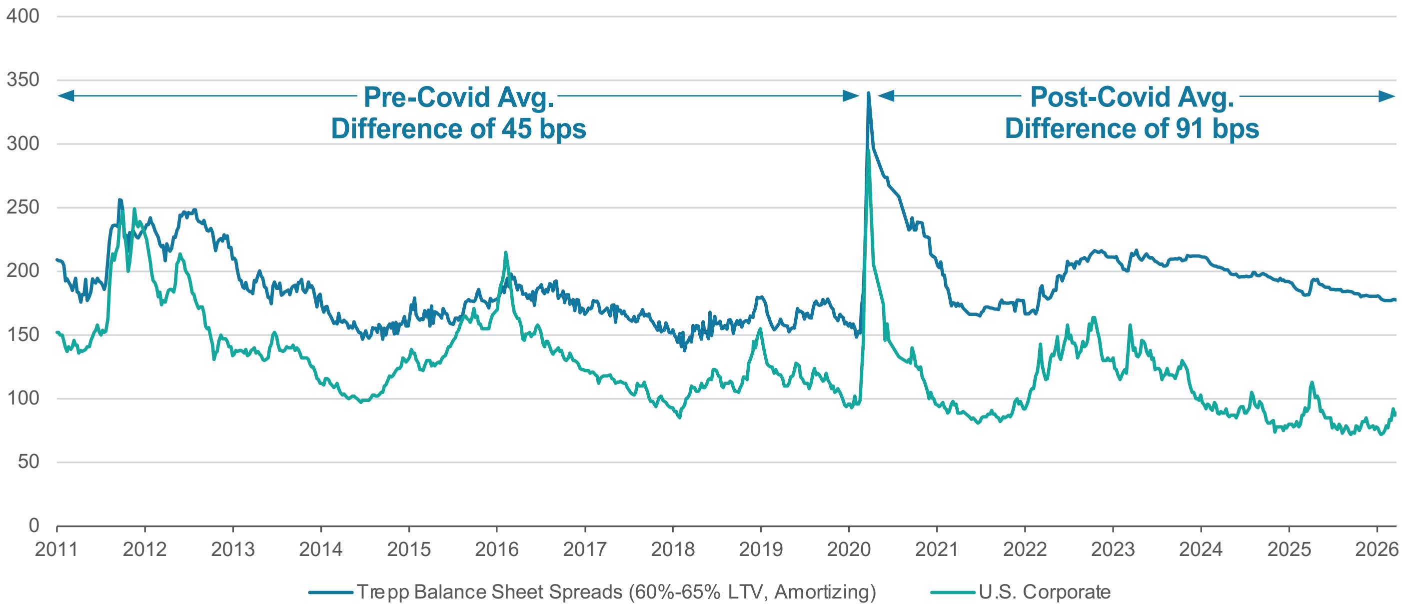
Market Spreads Underscore the Case for CRE Debt

Even with strong fundamentals, we believe CRE credit continues to offer a meaningful yield premium relative to corporate credit. CRE lending spreads on bank balance sheet loans at 60%-65% LTV remain significantly wider than investment-grade corporate bond spreads. The post-COVID average spread differential has widened to approximately 91 basis points, double the 45-basis-point pre-COVID average (**Exhibit 5** below).

Exhibit 5: CRE Debt Offers a Compelling Yield Premium to Corporate Debt

Spreads higher than long-term historical averages

CRE Spreads vs. IG Corporate Spreads



Source: CRE Finance Council, Trepp. Data from January 2011 - March 27, 2026. CRE spreads refer to bank balance sheet spreads on 60% - 65% LTV, amortizing 10-year fixed rate loans. LUACOAS Index used for U.S. Corporate IG spreads.

For allocators evaluating relative value within private credit, the combination is difficult to ignore.

A Macro Backdrop That Favors CRE Credit Discipline

In an uncertain environment defined by sticky inflation and higher-for-longer rates, corporate private credit remains exposed to earnings and valuation risk. By contrast, the defining features of CRE credit such as tangible collateral, observable cash flows, and conservative leverage, become more valuable in our opinion. Today's loans are typically structured at lower LTVs against reset property values, creating larger equity cushions for lenders. In supply-constrained markets, we believe muted new supply construction can support occupancy, rent stability, and more durable property-level cash flows.

Our View of the Impact of Current Economic Environment on Corporate vs CRE Private Credit

	Private Corporate Credit	CRE Private Credit
1. Cash Flow Sensitivity	Highly sensitive to earnings volatility; cash flow weakens quickly in downturns	Driven by contractual rents; observable and controllable
2. Leverage and Refinancing Risk	More highly levered with shorter refinancing cycles; higher rates quickly increase debt burden and risk	Lower leverage with amortization and equity cushion; asset backing provides multiple paths to refinance or restructure
3. Valuation Dynamics	Based on forward-looking enterprise value, which can decline rapidly and unpredictably	Backed by real estate values that have already reset, enabling lower-basis lending and downside protection
4. Collateral and Downside Protection	Relies on enterprise value and covenants; recovery values can deteriorate quickly in stress	Secured by tangible real estate, providing recoverable value and stronger downside protection
5. Current Stress Signals	Facing rising defaults, weaker cash flow coverage, and increased restructuring activity	Experiencing refinancing pressure but supported by disciplined underwriting and attractive entry yields

The Opportunity in Front of Us

The convergence is rare: reset property values, historically conservative underwriting, attractive relative spreads, constrained new supply, and a banking sector we believe has remained selective amid policy uncertainty and higher-for-longer rates. As refinancing needs mount, private lenders with rigorous credit processes should be well-positioned to finance strong assets on defensible terms.

Market commentary continues to treat private credit as a single asset class. We believe that framing is wrong. Investors who look beneath the headline should find that CRE credit occupies a distinct position today, often supported by tangible collateral, disciplined structures, and income streams that can be evaluated asset by asset.

For investors seeking income durability and downside protection, the objective is straightforward: capture attractive current yield while lending against stronger collateral bases and more conservative capital structures. We believe the current vintage may prove to be among the most compelling in recent memory.

PRIME Finance

Reach out for a deeper dive into any of these topics, or to explore how Prime Finance is positioning itself within commercial real estate credit markets.

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DISCLOSURES AND ENDNOTES

1. CoStar data, multifamily in San Francisco. Pulled April 27, 2026.
2. Behemoths of the boom: Ranking SF’s biggest AI companies by office size, by Kevin V. Nguyen, The SF Standard, published April 7, 2026. Utilizing proprietary and JLL data. https://sfstandard.com/2026/04/07/i-leaderboard-san-francisco-office/; CoStar data, office in San Francisco. Pulled April 27, 2026.