



The real alpha in real estate credit

A Q&A with Joshua Crane and Robert Schwartz

Private real estate credit has gone from niche allocation to a portfolio staple. How has the opportunity for investors evolved over time?

Joshua Crane: As the asset class has matured, the market has become more complex. We've seen a considerable expansion in the types and number of lenders, allowing both borrowers and investors to specialize. When the term "private real estate credit" is used broadly, most people are referring to strategies that focus on bridge and bridge-to-permanent loans on existing assets that are in lease-up or approaching stabilization. And it's true that most debt funds in the market today are focused on those kinds of assets.

But speaking broadly fails to recognize the nuances of the industry as it has grown. The specialized strategies operating in other corners of the market behave very differently, and some of them represent the most compelling risk-adjusted returns in real estate today. As a specialist housing-oriented construction lender, we play in a very specific box, but that's exactly how we generate alpha. For investors, the differentiator of the next decade will not be access to the real estate credit asset class. It will be selection and diversification within it.

Given the importance of nuance and specialization, let's dig into construction lending more specifically. How has this market segment changed over time?

Robert Schwartz: Historically, construction lending was dominated by regional banks. The 2023 crisis precipitated by the collapse of Silicon Valley Bank was a structural inflection point for the market as subsequent regulations made construction loans far less attractive for banks. Private debt funds have since filled the gap, but most only have a small percentage of their overall credit book in construction loans. The dominant assumption has been that a construction loan is like other real estate loans, only riskier. Oversight often means hiring third-party inspectors and reading their reports. Limiting exposure and outsourcing the operational work became the market standard for risk management.

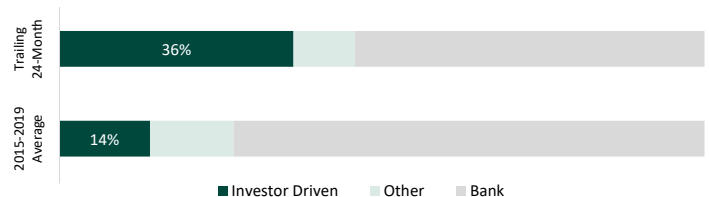
Joshua Crane: By starting our careers as developers, we saw firsthand that execution risk isn't managed by outsourcing it. It's managed by doing the opposite: staying hands-on and on-site throughout the entire development process. That's where we saw an opportunity to transform the market through specialization. We believe that construction lending requires proactive asset management via an operating machine that was purpose-built for it. So we designed a vertically integrated platform where origination, legal, underwriting, asset management, and construction monitoring all live in-house. And we've seen the benefits: specialization is what separates the lenders who catch problems early from the ones who find out too late.

Why is this moment interesting for construction lending? What are you seeing today with respect to deal flow?

Robert Schwartz: While many debt funds have struggled to deploy capital in an increasingly competitive environment, we've seen a significant opportunity in construction lending. The proof is in our origination volume: we have originated more than \$5 billion in the past three years, and based on year-to-date activity, we currently expect 2026 origination volume to approach \$3.5 billion.

And here is the nuance most people miss: private lenders are partnering with banks rather than competing with them. Banks still want construction exposure, but they want it in a capital-efficient form. Note-on-note financing garners more favorable capital treatment for banks from a regulatory perspective and allows banks to participate in the senior portion while specialist private lenders originate, underwrite, and actively manage the loan. Banks benefit from an experienced operator managing construction risk, and borrowers typically enjoy faster, more flexible funding execution. It's a better solution for everyone.

Figure 1. United States Construction Lender Composition



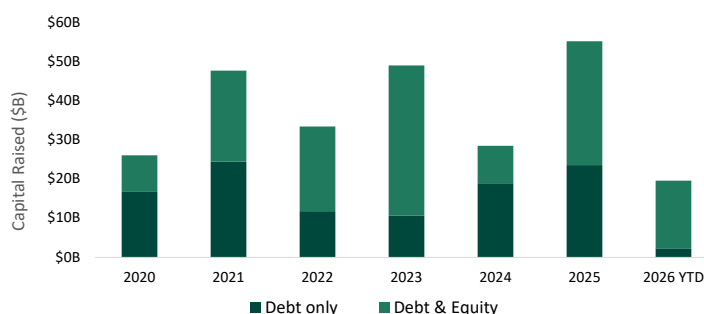
Source: MSCI, Real Capital Analytics, data as of July 2026.

Many investors take their real estate exposure through equity strategies. How does construction lending compare?

Robert Schwartz: Institutional allocators are increasingly taking real estate exposure through combined debt and equity strategies (Figure 2). This tells us that the market is validating credit's place within a diversified real estate portfolio. But in our view, a manager stretched across both debt and equity becomes a generalist in each. A specialist construction lender can generate equity-like returns without taking nearly as much risk, and that's what truly differentiates the strategy. In a joint strategy, construction doesn't get the attention it requires, and the excess returns generated through the specialist nature of the strategy are diminished. We recognize institutional allocators are under pressure to consolidate around fewer, larger managers. But that consolidation has a cost.

Joshua Crane: The return profile is also fundamentally different. Equity strategies typically call capital, fees are paid, and assuming the market cooperates, distributions arrive years later. Our loans generate contractual interest income from close, which we distribute quarterly, and we have now done so for 43 consecutive quarters. We will never hit a home run like an equity fund. We aim to hit singles and doubles, and that's exactly what we have done consistently over time.

Figure 2. Total Capital Raised, Closed-End Real Estate Funds by Year of Final Close



Source: IREI IQ, data as of July 2026. Includes all strategies that target investments in North America.

Most private credit allocations are anchored in corporate direct lending. Where does construction lending fit within that broader bucket?

Robert Schwartz: Construction lending offers the same core attributes of stable current income, downside protection and low mark-to-market volatility, but with a fundamentally different risk profile. This means construction lending can serve as a complementary portfolio allocation that provides real diversification. Collateral in construction lending is a physical asset secured by a first-lien mortgage. Because we closely monitor loans and have an in-house construction team, we're typically able to get paid off at par even in the event of foreclosure. Corporate direct lending's collateral is intangible cash flows and projected EBITDA growth assumptions. There's very little that can be done in a workout situation.

Joshua Crane: We also believe that with the correct understanding and domain expertise, real estate lending has a more reliable way of ascertaining value than corporate direct lending. For allocators thinking about how to build a more resilient portfolio, construction lending in supply-constrained markets offers a compelling combination of asset-level security and consistent, durable cashflow.

The past few years stress-tested every credit strategy. How did yours hold up, and what should investors take away?

Robert Schwartz: Our model has now been tested across a range of market conditions, including COVID and the sharpest rate-hiking cycle in four decades. Throughout all of it, we have seen consistent exits across our book. Since 2013, we have originated more than \$10 billion across 925-plus loans with zero investor capital losses.

Joshua Crane: Risk mitigation is embedded in our underwriting process with real downside protection in our first-lien position on a physical asset. To truly benefit from a diversified portfolio with differentiated risk exposure, we think investors should work with specialists who live and breathe their sector. Real diversification should come from bets across managers who are experts in their field, rather than diversification within one generalist manager.

CONTRIBUTORS



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Co-Founder and Managing Principal

Joshua Crane is Co-Founder and Managing Principal of S3 Capital. Prior to founding S3, Joshua worked at Iroqgate, where he developed the Trump International Hotel and Tower at Waikiki Beach Walk. He also worked at Stellar Management, where he was involved in the acquisition of Independence Plaza, a 1,330-unit rental building in New York City's Tribeca neighborhood, and 2,000 units in Washington, D.C. Joshua began his career at Salomon Brothers in its M&A group and earned a degree from the Wharton School at the University of Pennsylvania.



Robert Schwartz

Co-Founder and Managing Principal

Robert Schwartz is Co-Founder and Managing Principal of S3 Capital. Prior to founding S3, Robert helped run a successful family business where he established the family's real estate investment program. He began his career in investment banking at Donaldson, Lufkin & Jenrette and UBS in the Financial Institution Coverage groups. Robert graduated from the Wharton School at the University of Pennsylvania and serves on the Executive Board.

COMPANY OVERVIEW

S3 Capital is a vertically integrated real estate credit manager focused on protecting investor capital while generating durable current income. S3's founders began as New York City developers, where firsthand experience with market inefficiencies led them to create an institutional-quality lending platform tailored to small and mid-sized sponsors. Since 2013, S3 has originated over 925 loans totaling more than \$10.2 billion and today is one of the most active non-bank construction lenders in the United States. The firm targets first lien mortgages for housing-oriented commercial developments in supply-constrained markets across the country. Armed with an in-house construction team and a deep understanding of all aspects of real estate development, S3 Capital utilizes a disciplined approach steeped in proactive risk management to serve its global investor base and deliver consistent outcomes.

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